

The Role of State Socialism in Early Developmentalist East Asia:
Nishihara Kamezō's 'Strategy for Economic State-Building' and Beyond

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Abstract of thesis entitled : “The Role of State Socialism in Early Developmentalist East Asia : Nishihara Kamezō’s ‘Strategy for Economic State-Building’ and Beyond”

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The origins of the Developmentalist economic model in East Asia have often been equated with Confucian or "Asian values", or the spread of Marxian, Fascist and Keynesian ideas from the 1920s onwards. Yet its history goes back much further. This thesis seeks to point out the existence in East Asia of a “State Socialist Phase” of developmentalist thinking, formed progressively from the early 1890s onwards. Its maturity was reached with the 1918 manifesto, *Strategy for Economic State-Building*, commissioned by Prime Minister Terauchi Masatake and written by his advisor Nishihara Kamezo. Nishihara championed an economic Pan-Asianism, the goal of which being a successful rebellion of the East Asian economic periphery against Caucasian “core nations”. Nishihara has a record of opposing the annexation of Korea and was against military expansion at the cost of improving popular living conditions. Although its recommendations were never carried out, this thesis argues that Nishihara’s manifesto was the trailblazer in terms of “GNP Growthism” and “Rationalization”, and sheds light on the origins of a technocratic mindset that explains a multitude of economic and political changes that would befall East Asia.

The “Nishihara Moment” marked a rare and genuine coincidence of interest across the Japan Sea. Nishihara argued that the economic growth of China was not to be feared but should be fostered as complementary to Japan’s prosperity. He proposed a massive investment package for China similar to the “Marshall Plan”, and an “East Asian Economic League” with a Bretton Woods-like currency arrangement. In Japan, total land reform was to be followed by collectivization, and the merchant class would be replaced by an Imperial Commodities Corporation. This thesis traces the European origins of Nishihara’s thinking, to Friedrich List, Otto von Bismarck and other thinkers influential upon Japanese bureaucrats. Walther Rathenau’s WWI German mobilizational model simultaneously inspired Nishihara’s vision of domestic industrial rationalisation and Lenin’s War Communism. The latter gave rise to the Stalinist model of industrialisation which was imported into East Asia in the 1930s.

Nishihara was distinctive for actively incorporating the policy aims of Chinese industrial bureaucrats, whose State Socialism has until now been underdocumented and their developmentalist efforts underestimated. This thesis argues that State Socialism forms one important “continuity structure” in Chinese modern history, representing an accumulation of policy visions since the late-Manchu period up to the Socialist transformations of the 1950s. State Socialism, being especially congruent to the needs of a “top down revolution”, naturally suited the mentality of the technocratic corpus. In China, this group maintained a high consistence throughout the period from the 1900s to the 1960s. Many aspects of Socialist Chinese and Korean policy were already featured in Nishihara’s State Socialism. Nishihara’s plans for the expansion of cotton, wool and steel production had been made in consultation with Chinese leaders, and were eagerly promoted by subsequent generations of technocrats. The role of the technocratic corpus in directing the course of Chinese modern history has usually been subsumed by more salient revolutionary forces, and therefore deserves a fundamental re-evaluation.

論文撮要 國家社會主義在東亞早期發展主義中的作用
西原龜三的《經濟立國策》及其後

梁明德

本文指出在東亞的發展主義思潮中，曾經存在過一個“國家社會主義階段”，其於 1890 年代發端，並於二戰以後開花結果。國家社會主義思潮走向成熟的一個里程碑，是日本首相寺內正毅在 1918 年委託其顧問西原龜三所撰寫的國家社會主義宣言《經濟立國策》。西原提出的是一種經濟的亞細亞主義，其目標是帶領作為經濟邊陲的東亞，反抗白種人的經濟核心國家。雖然該書的建議從來沒有落實，本文認為西原應被視為國民生產總值增長主義和產業合理化主義的先行者，並可以解釋東亞技術官僚思維的源頭。

西原認為，日本不應當懼怕中國的經濟發展，而是應該視之為與日本自身繁榮契合一致，並提出一個類似於馬歇爾計劃的龐大對華投資方案，以及在類似於布雷頓森林體系的“東亞經濟同盟”。西原同時提出在日本進行土地改革，並加以全面集體化，以及對工商業進行改造，實行統購統銷。本文追溯西原思想的歐洲起源，特別是對日本官僚起重大影響的李斯特主義和俾斯麥國家社會主義。瓦爾特·拉特瑙在一戰時期為德國設計的國家社會主義動員系統，同時啟發了西原的工商業合理化方案，以及列寧的戰時共產主義；後者所引出的斯大林工業化模式，在 1930 年代將由日本和中國的技術官僚重新引入到東亞。

西原獨特之處，在於其主張積極融合並發展了中國工業官僚的政策目標。民國經濟官僚的國家社會主義主張，一直都沒有受到學界重視。本文認為，“國家社會主義”構成中國近代史上一個重要的“延續結構”，代表著從清末新政到 1950 年代社會主義改造的經濟政策積累的傾向。“國家社會主義”特別適切“自上而下革命”的需要，自然適合中國的技術官僚團體的思維；他們從 1900 到 1960 年之間維持高度連貫性。中國和朝鮮社會主義政策的不少元素，都見諸於西原的國家社會主義。西原與中方商討後，提出擴大棉花、羊毛、鋼鐵生產等政策，這也成為中國技術官僚日後積極推動的政策目標。技術官僚在指導中國近代發展的角色，由於經常被其他“更革命”的力量所掩蓋，亟需一次根本的再評價。

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Note on Transliterations and Chinese Characters

To help readers with further research using source documents, and to avoid anachronisms or inconsistencies (such as the usual, unfortunate practice in history works on China where 'Sun Yat-sen' and 'Chiang Kai-shek' are used in tandem with 'Guomindang' rather than 'Kuomintang'), this thesis uses spellings for people and place names as they appeared on documents from the time. For Chinese terms this would be spellings in either the Wade-Giles or Postal Map systems. A conversion table between contemporary and Hanyu Pinyin spellings is appended to this thesis. Similarly, for the original terms in Chinese and Japanese, save for the bibliography, rather than using three systems – kanji in *kyujitai* and *shinjitai* forms and simplified Chinese – I have decided to use only *kyujitai*, ie. traditional Chinese characters. This helps with consistency and is appropriate, since the era being covered predates the promulgation of Japanese *shinjitai* in 1946 and simplified characters in China in 1956.

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1. Introduction and Historiographical Review

1.1 *Developmentalism in East Asia and State Socialist Ideology*

After the Second World War, most countries in East Asia became what might be called “developmental states”. This usually entailed the rationalisation and mobilisation of socio-economic structures and resources, and massive investment in infrastructural projects, undertaken by a state that prioritises economic growth. Developmental states came in different varieties across a wide spectrum; whilst China, North Korea and Vietnam championed Socialist “People’s Democracy”, Taiwan and South Korea until the 1990s were referred to as “Developmental Dictatorships”.¹ On the other hand, Japan, as the model Developmental State in the eyes of Chalmers Johnson,² possessed until the early 1990s a technocracy that eagerly employed authoritarian interventionist methods, with varying degrees of success in actually influencing how business was run. Developmentalism obviously did not always succeed; it should thus be judged as an intellectual phenomenon in policy making. Actual economic performance, which is subject to a multitude of factors, is extraneous to the philosophical content of Developmentalism.

The long continuities underlying Japanese developmentalist policy have been much better described by historians than those underlying Chinese and Korean developmentalism. Even then, at its outer temporal limits, Johnson has only briefly noted that “Japan’s political economy can be located precisely in the line of descent from the German Historical School – sometimes labelled ‘economic nationalism,’ [...] or Neomercantilism”. Johnson also judged that since such economic thinking isn’t mainstream in the English-speaking world, Japan has been “studied as a ‘variant’”,³ when it really should have been seen as representative of an alternative mainstream. Such could be what Kōzō Yamamura has termed “Nonliberal Capitalism”;⁴ yet the “Nonliberal” is only a negation of the “Liberal”, and even Yamamura has not come up with a very succinct definition of what “Nonliberal Capitalism” actually affirms.

¹ Lee, Byeong-cheon, ed. *Developmental Dictatorship and the Park Chung-hee Era – The Shaping of Modernity in the Republic of Korea*. Eungsoo Kim and Jaehyun Cho, trans. Paramus, NJ: Homa & Sekey Books.

² Chalmers Johnson, *MITI and the Japanese Miracle – The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press, 1982.

³ Ibid., 17.

⁴ Streeck, Wolfgang & Kōzō Yamamura, eds. *The Origins of Nonliberal Capitalism – Germany and Japan in Comparison*. Ithaca: Cornell University Press, 2001.

This is not to say that “Nonliberal Capitalism” is a pejorative term, for if it stands for state-led Developmentalism, then East Asia’s modern growth owes much to it. Three notions are central to Developmentalism – economic rationalization, large-scale infrastructural construction, and what Scott O’Byran calls “GNP Growthism”. All deserve re-examination. East Asian Developmentalism, notably the Authoritarian variant, is popularly assumed to be attributable to Confucian traditions;⁵ to the introduction of Marxist, Fascist and Keynesian ideas after 1919; or to the solidification of the Cold War divide in the 1950s. Save for Keynesianism however, none of these adequately provide for the technocratic ideals⁶ of rationalization, infrastructuralism or growthism, all of which began in East Asia long before Keynes’s ideas became prevalent there. Non-Stalinist Marxism is relevant to growth only haphazardly, and Developmentalism in Asia obviously predates Stalinism or the Cold War. Something more fundamental is missing from the picture.

What has been universally overlooked, which this thesis is trying to restore to its proper centrality, is the more-than-transitional role of an ideology called “State Socialism”. This ideology originated in the late 1870s Germany. Socialism, before 1917, was an extremely diverse and malleable concept, and was not necessarily anti-establishmentarian. Otto von Bismarck, as we shall see, was probably being the first major statesman in the world to refer to his own policies as “Socialist”, despite never receiving any credit for being so, especially from the Social Democrats whom he repressed. “State Socialism”, at first used by Bismarck’s opponents and victims as an insult, evolved into a legitimate concept with the apparent success of his social and economic policies. State Socialism found its way to late Meiji Japan and late-Manchu China, and indeed was a major component of Chinese revolutionary ideology. It subsequently became the only discernable economic ideology in the Peiyang regime. During the First World War, German State Socialism was transformed by Walther Rathenau into a system of total war planned economics; this inspired Lenin’s “War Communism”, from which arose the Stalinist model of total-mobilizational industrialisation. The Stalinist model was in turn introduced to East Asia in the 1930s via Japanese economic planners working on the home islands, colonial Korea,

⁵ Yamamura, “Review of MITI and the Japanese Miracle : The Growth of Industrial Policy, 1925-1975 by Chalmers Johnson; Why Has Japan ‘Succeeded’?: Western Technology and Japanese Ethos by Michio Morishima.” In *The Journal of Japanese Studies*, 9 (1) (Winter, 1983), 215. Yamamura was referring to the analysis in Morishima’s *Why Has Japan ‘Succeeded’? Western Technology and the Japanese Ethos*. Cambridge : Cambridge University Press, 1982.

⁶ O’Byran, *The Growth Idea*, 8

Manchukuo and the occupied parts of China. Economic bureaucrats in China's Kuomintang likewise emulated Soviet planning. These effects continued well into the post-war period – the Japanese planners went home to continue their work; bureaucrats in both Koreas continued and expanded colonial-era policy tendencies; and Kuomintang's economic staff defected en-masse to the Communist regime, with some of them remaining in leading positions until the 1980s.

State Socialism lacks the ideological coherence and prowess of Marxism, and in practice it collapses into forms of State Capitalism. Rather than being a full-fledged ideology, State Socialism should be described as a “basket of policies”, or a “set of ideas” from which governments of various inclinations picked out what suited their contingent needs. The influence of German State Socialism on the modern make-up of most western democracies has been totally underestimated. State Socialism, since the Bismarckian times, have been the amalgam of two facets of policy, both designed to counter or control the consequences of capitalist industrialisation. Bismarck pioneered modern social policy such as workers' insurance, which to some extent alleviated labour problems inevitable under capitalism. This is whilst his insistence on the nationalisation of naturally monopolistic branches of industry, most notably the railways, ensured that they would not fall into the hands of the powerful few, in addition to creating a steady source of revenue for the state outside taxation. On the other hand, non-monopolistic industries, such as collieries, were encouraged to amalgamate and cartelise, so as to reduce competition to a minimum and encourage economies of scale.

The British welfare state and its once vast nationalised economic sector owed heavily to German inspiration. David Lloyd George modelled his National Insurance Act of 1911 on Bismarckian practice, whilst his advocacy for State Capitalism, in the form of the nationalisation of the railways and collieries, was realised in 1915 as a wartime measure. This last policy was rescinded in 1918, but was revived during the Second World War and made permanent by the post-war Labour Government. On the other hand Woodrow Wilson's economic mobilisational policies were in part influenced by Rathenau's system, and many of the men in charge of it during the First World War went on to lead the New Deal.⁷ In non-Marxist states therefore, the creation of the Welfare State and the implementation of State Capitalism was often

⁷ Don Lavoie, *National Economic Planning – What is Left*. Arlington : George Mason University Mercatus Centre, 2016, 226.

the result of State Socialist inspiration. Similarly, for Communist states, Marxism in practice provided often only a rhetorical shell for policies inspired by State Socialism. In practice, such countries embodied also the usual formula of the Welfare State plus State Capitalism. In other words, State Socialism was not only midwife to State Capitalism, it acted as an imposing nanny whose methods often over-rode that of Academic Marxism in fostering young Communist states.

Putting State Socialism in practice requires decades of mental preparation in Statist economic discourse, usually achieved by the propagation of Friedrich List's works; this meant that State Socialism often absorbed Protectionist advocacies.⁸ Such, as we shall see, was the case for Germany, Tsarist Russia and Japan. In China and Japan from the 1900s to the 1930s, there was a growing consensus that "a 'visible hand' of rationalized control must replace the faulty mechanisms of laissez-faire capitalism",⁹ especially when markets failed to generate industrialization on their own. As a result, in both countries, there was "deepening faith in the possibilities of rationalized planning [...] from the end of the First World War through the 1960s",¹⁰ the goal being "to develop a renovated controlled economy that was both scientific and democratic."¹¹ As we shall see in the conclusion, post-war Japan only became a developmental state – not more and not less – due to repeated and almost always only half-successful attempts in the 1930s-60s at erecting "State Monopoly Capitalism", inspired by State Socialism. Retracing the history of State Socialism helps explain the origins of the "impulses"¹² at the base of developmentalism. Just as discussions of "growthism [...] is not to claim that it alone caused economic growth", the retelling of the history of State Socialist ideology serves to explain how rationalization, large-scale infrastructural construction and growth "as a concept came to govern national and global agendas".¹³ Yet a huge gulf remains between late 19th-century influx of State Socialist ideology and attempts at its implementation upon the importation of Stalinism in the 1930s.

This brings us to the centre of this inquiry into the origins of the intellectual phenomenon of State Socialist Developmentalism – a long-forgotten document from

⁸ During the 1900s Sun Yat-sen simultaneously endorsed State Socialism and Free Trade; Lujo Brentano, a member of the German Social Policy School, also supported free trade, but they are exceptions rather than the rule.

⁹ O'Bryan, *The Growth Idea*, 38.

¹⁰ Ibid., 15.

¹¹ Ibid., 21.

¹² Ibid., 15.

¹³ Ibid., 9.

1918 which, due to it having never been put into practice, would have been easily brushed aside as a historical dead-end. This is the *Strategy for Economic State-Building*, [經濟立國策] written by Nishihara Kamezō, [西原龜三] advisor and special envoy to China under the Japanese Prime Minister, Terauchi Masatake, [寺内正毅]. The manifesto contained a State Socialist, Developmental Authoritarian vision for the whole of East Asia, and represents much more than an intellectual curiosity. There is evidence to show that the document was commissioned by the Prime Minister himself, and that an inter-departmental team of 11 young bureaucrats and social reformists had helped its drafting, which took place in stages between December 1917 and October 1918; Chinese officials and their policy documents were also consulted during the manifesto's drafting. Nishihara's vision was to turn Japan, China and East Asia into a single "State Capitalist Trust".¹⁴ Simultaneous to Lenin's adaptation of German State Socialist mobilizational methods for the young Soviet Union, Nishihara played an obscure role in introducing planned economics into East Asia during the very last days of the First World War, and the diplomatic programme he spearheaded – known as the Nishihara Loans – would have resulted in an "East Asian Economic League" that would have meant a very different course of history for Japan, its possessions, and China, as well as other nations with a vested interest in the region. This thesis argues that Nishihara's proposal should be recognised as a milestone in the emergence in Asia of a State Socialist Phase of Developmentalism – a process which began in the 1890s but which blossomed during and after WWII. This thesis is an attempt to explain how this mode of economic development came about. As such, it would be impossible to understand Nishihara's proposals except by situating it in the growing State Socialist tide in both China and Japan during this period.

1.2 *Why Study Nishihara's forgotten reform manifesto?*

Historians on the Japanese economy have usually been dismissive of the relevance to the post-war economy of policies and proposals before the 1920s, particularly before the 1927 Shōwa economic crisis.¹⁵ For them, it was from this point on that

¹⁴ In Nikolai Bukharin's definition which will be explained later in this thesis.

¹⁵ The usual view, as articulated by Scott O'Bryan, is that – "A closer look at the history up to the 1930s does not validate common ideas about the extent of central direction of the economy. [...] State industrial policy during Meiji was not a reflection of deep commitment to intervention per se. [...] the central government was not involved in extensive planning or control functions as they came to be practiced by the civilian and military bureaucracies beginning in the late 1920s. [...] [The] Crisis of capitalism during the 1920s and 1930s [...] had placed the theoretical and practical

rationalisation and growthism became integral to Japanese policy-making. Such timing inevitably means that the innovations in economic policy-making collapses into the expansionist aims of the 1930s and 40s. Chalmers Johnson's *MITI and the Japanese Miracle* is no exception to the rule, with Kōzō Yamamura noting that –

“Johnson is a good historian except for his argument, in part based on the creation of the [...] Ministry of Commerce and Industry (MCI) in 1925, that Japan somehow suddenly began only at that time to take the initial steps toward being a “developmental state”. It would have been more accurate, I think, to argue that many of the policies adopted during the late 1920s had long roots in Meiji Japan. [...] the ideas and institutional innovations of the interwar years were not merely ‘heritage’ but a training ground for the industrial policymakers of the 1950s and ‘60s.”

Yamamura's remarks suggests, on one hand, the importance of rediscovering the significance of the First World War and the proposals by Nishihara Kamezō, which the war gave rise to; and on the other hand, it suggests the possibility that Nishihara's proposals, continuing the State Socialist tendencies in Japanese policy under Prime Minister Katsura Tarō [桂太郎] during Meiji's last decade, could be seen as the starting point of a trend that ultimately culminated in Post-war industrial policy-making. This is because Nishihara, as we shall see, was linked to late-Meiji statist bureaucrats and social reformers, who imported notions of Statist and State Socialist economic theories and saw to their progressive implementation during the mid-1900s under Katsura Tarō. He also foresaw the economic planning carried out by the Reform Bureaucrats of the 1930s. He absorbed the earlier version of Developmentalism and Social Reformism that had come from Bismarckian Germany, and the "Planism" and rationalism of Walther Rathenau's total mobilizational system. Nishihara's manifesto thus signalled the advent in Asia of technocratically-planned and guided reformist economics.

State interference in the Japanese economy, heavily frowned-upon during the 1880s-90s when Matsukata Masayoshi [松方正義] was Finance Minister and Prime Minister, survived as an undercurrent within bureaucratic circles to which Nishihara was associated, until with the First World War, interventionism and

problems of economics front and centre [...] Finally, the Great Depression had threatened to cut the stays of the capitalist system the world over.” (Scott O'Bryan, *The Growth Idea – Purpose and Prosperity in Postwar Japan*. Honolulu : University of Hawaii Press, 2009, 25.)

Planism emerged into the open. These gradually became the dominant mode in policy-making by the late 1930s, and by the 1950s had become unquestionable, when planners tried “to articulate a revised vision of planning more appropriate to a ‘new’, open Japan”.¹⁶ In China, economic planning within the context of reformism and the Open Door Policy is still the dominant mode. Such changes rode on State Socialism, and Nishihara’s proposals were the product of this transition and was emblematic of it, even though they did not contribute directly to the actual results. Nishihara was also the trailblazer of Sino-Japanese economic cooperation, something which did not become mainstream until the late 1970s; his proposals for a planned economy based on Sino-Japanese integrationism shows that the link between rationalisation and expansionism isn’t inevitable.

Nishihara’s manifesto has been overlooked by scholarship on the development of Japan’s Continental Policy and on the country’s reformist discussions during WWI. Yet this does not do any justice to Nishihara’s innovative thinking. He stated in clear terms a mutualistic view of development in East Asia – that Chinese industrial growth was pre-requisite to Japan’s own prosperity. Nishihara called for a Sino-Japanese economic union which encompassed Taiwan and Korea, that would have led to an “East-Asian Economic League” [東亞經濟同盟] involving cooperation in seven sectors,¹⁷ achieving self-sufficiency in cotton, wool, iron and energy supply. This would have coordinated Japanese investment in a China whose prosperity, he argued, was not to be feared, but to be fostered as complementary to Japan’s own future development. Nishihara thought it counter-productive to seek political unity, within and beyond China, before the realisation of economic unity. It was in Japan’s interest, Nishihara argued, to aide Chinese political unification through infrastructural investment, and to return Japanese concessions to Chinese control, so as to consolidate a Chinese state that could stand up better against the west. He proposed financial reform in China to replace the silver taels then in use, with new gold-backed Yuan banknotes; the gold-backed Japanese yen would have served as a reserve currency, in an arrangement not dissimilar to that of Bretton Woods. His ambitious industrial projects included a steel complex in Nanking, railways from the seaboard to the Pamir Plateau, and widespread experimentation of crops and techniques. Japanese funding would have flooded into China much like American

¹⁶ O’Byrne, *The Growth Idea*, 21.

¹⁷ 1. Tax reform, 2. Monetary reform, 3. Railway management, 4. Cotton; 5. Wool, 6. Mining and 7. Steel self-sufficiency.

funds did during the Marshall Plan for post-war Europe. All this rested upon the able direction and cooperation of an emerging developmental Chinese state – subject to a discussion in this thesis – in which Nishihara showed confidence.¹⁸

Nishihara also advocated industrial rationalisation within Japan, inspired by Walther Rathenau's mobilizational model, with the state assuming wide-sweeping powers to coordinate production decisions and to interfere in purchasing, circulation and retail. Using novel statistical techniques, Nishihara demonstrated that commercial laissez-faire and military spending were both to blame for Japan's relatively low GDP. If, as Scott O'Bryan argues, "Growth [...] has a history",¹⁹ then Nishihara deserves mention as one of the first Japanese theoreticians to clearly articulate the goal of economic growth, and at such a high level in the political hierarchy. He argued that industrial rationalisation, together with reforms to local governance, agricultural improvements, electrification and technical education, would solve at one stroke the questions of productivity, inflation and popular living standards. Total land reform to distribute two hectares of farmland to each family would be followed by the collectivization of all rural communities. A single 'Imperial Commodities Corporation' would be founded by the government, and its stock would be held by production cooperatives; the state-run corporation would purchase directly from the rural production cooperatives, whilst the distribution of all products would take place in new town-centre department stores. This would remove the need for the existence of thousands of middle-men – in other words, the entire commercial class – who were blamed for the inflation and economic chaos.

Nishihara referred to his ideas as a form of 'State Socialism', [國家社會主義] yet wrapped his arguments in Confucian rhetoric and presented them as an attempt to fuse the best of eastern and western civilisations. This was to create a rational socio-economic order that could overcome the maladies of capitalist, industrial modernity – thus becoming the forerunner of an ideological urge to seek an alternative modernity, one that became increasingly problematic towards the 1940s with its co-optation by reactionary and militaristic tendencies. Yet Nishihara distinguished himself from his militaristic peers by accusing Japan's Continental Policy and its military-orientated, industrial capitalist system of neglecting the social duties of responsible government; such were, he argued, integral to the spirit of the Meiji

¹⁸ Indeed this is an important point that distinguishes Nishihara from the proponents of the Twenty One Demands, who distrusted China's ability to direct its own development.

¹⁹ O'Bryan, *The Growth Idea*, 3.

Renovation. Although Nishihara expected renewed international competition to follow WWI, his views on Continental Policy marks a drastically different calculation of Japanese interests to hitherto imperialism founded on the British alliance. A close examination of China's performance during the Nishihara Loans shows the country to be the co-pilot in the industrialization plans; incompetent though it might have ultimately turned out to be, China was firmly situated in the other driving seat, and deserves extended discussion. Nishihara's case thus challenges the way how Japan and China has been defined against each other, especially with regards to their economic modernization.

The Nishihara Loans to China [西原借款] are an oft-neglected aspect of Japanese policy during WWI, and indeed, of the role of the war in shaping the Asian geopolitical order. In many works on the history of Japanese foreign policy, including those written by Japanese scholars – notably Rōyama Masamichi²⁰ [蠟山政道] or Kita'oka Shin'ichi²¹ [北岡伸一] – the Nishihara Loans received not a single mention. Nishihara Kamezō's name is missing from many works on Pan-Asianism.²² Such a situation probably resulted from the eclipse of the Nishihara Loans by the domineering existence of the Twenty-one Demands, and it is true that many historians interpret the Nishihara Loans in light of the latter. Most Chinese scholars believe that the Nishihara Loans accomplished what the Twenty-one Demands failed to – this is despite the Twenty-one Demands asking for very different things to those envisioned by Nishihara: railway and mining concessions in Fukien, Manchuria and Inner Mongolia, the appointment of Japanese advisors to Chinese ministries, and the establishment of a Sino-Japanese Joint Police Force. They would have rendered China a vassal state of Japan. Yet Nishihara's vision represented anything but a simple takeover of China or a further encroachment upon it. For many scholars, there is a stark contrast between the confrontational methods of Foreign

²⁰ See Masamichi Rōyama, *Foreign Policy in Japan, 1914-1939*. Institute of Pacific Relations. Japanese Council. 1973

²¹ See Kita'oka, Shin'ichi. [北岡伸一] *Nihon Seiji Shi : Gaikō to Genryoku* (A Political History of Japan – Diplomacy and Power) [日本政治史：外交と権力] Tōkyō : Yuhikaku [有斐閣], 2017.

²² For example Eri Hotta, Christopher Szpilman, Matsu'ura Masataka [松浦正孝] and Wang Ping [王屏] See Eri Hotta, *Pan-Asianism and Japan's War 1931-1945*. New York : Palgrave, 2007; Szpilman, Christopher W. A. [クリストファー・W・A・スピルマン] *Kindai Nihon no Kakushinron to Ajia Shugi – Kita Ikki, Ōkawa Shūmei, Mitsukawa Kametarō ra no Shisō to Kōdō* (Reformism and Pan-Asianism in Modern Japan – The Thought and Action of Kita Ikki, Ōkawa Shūmei, Mitsukawa Kametarō.) [近代日本の革新論とアジア主義 – 北一輝。大川周明、満川亀太郎らの思想と行動] Tōkyō : Ashishobo, [芦書房] 2015; Matsu'ura Masataka, *Ajia Shugi wa Nani wo Kataru no ka* (What does Pan-Asianism tell us?) [アジア主義は何を語るのか] Tōkyō : Minerva Shobō, [ミネルヴァ書房] 2013; and Wang, Ping. [王屏] *Jindai Riben de Yaxiya Zhuyi* (Pan-Asianism in Modern Japan). [近代日本的亞細亞主義] Beijing : Commercial Press, [商務印書館] 2004.

Minister Katō Taka'aki [加藤高明] during the Twenty-One Demands and Nishihara's reconciliatory approach. Frederick Dickinson called the Nishihara Loans as "a new departure in Japanese diplomacy [...] the loans had an object much larger than Katō's aim with the negotiations with Beijing. Katō, as we have seen, attempted to negotiate concessions in the manner that had become accepted by the great powers since the Sino-Japanese War", whilst Terauchi, Gotō and Nishihara "conceived of Sino-Japanese relations in entirely novel terms."²³ Frank Langdon argued that Terauchi's policy, "misrepresented and misunderstood, [...] was an attempt to solve the problem of friendly relations with China by constructive methods".²⁴ W. G. Beasley also notes that "they set out to create a Sino-Japanese bloc, such as would give Japan privileged access to Chinese raw materials – especially coal, iron and cotton – together with a measure of control over China's financial structure, but would not cause offence to Chinese susceptibilities to the same extent as open political interference or the seizure of Manchuria and Inner Mongolia would do."²⁵

Unfortunately, much of the existing historiography on the Nishihara Loans focuses on it being the antecedent to the notorious 'Co-prosperity' ideals of the 1930s-40s; a closer examination of what 'Co-Prosperity' entailed shows huge differences to Nishihara's plans.²⁶ Beasley acknowledged the role of the Nishihara Loans in reinventing Japanese imperialist strategy, and that it perhaps had the potential to be something altogether different, writing that "they were ahead of their time" and noting that in at the time of the Loans, "Japan did not yet have the resources for what they proposed. Arguably, it never did. Yet a decade later, [...] the ideas put forward in 1917 and 1918 lay ready to hand to offer an alternative."²⁷ This rather fatalistic view of the Nishihara Loans was shared by Tak Matsusaka, who

²³ Frederick R. Dickinson, *War and National Reinvention – Japan in the Great War, 1914-1919*. Cambridge (Massachusetts) and London : Harvard University Asia Centre, 1999, 161.

²⁴ Frank C. Langdon, "Japan's Failure to Establish Friendly Relations with China in 1917-1918". In *Pacific Historical Review* 26, no. 3 (Aug, 1957), 245.

²⁵ W. G. Beasley, *Japanese Imperialism, 1894-1945*. Oxford : Clarendon Press, 1987, 120. Additions in square brackets are mine.

²⁶ Nishihara was much more egalitarian and respectful with regards to the partner country, China, and much more encouraging towards industrial development there – contrast this to, for example, a March 1942 Navy Ministry report that envisaged bringing the whole region under a Japanese economic umbrella : "To keep Southeast Asia as a supplier of raw materials, Japan would discourage the creation of new manufacturing industries." (Yellen, *The Greater East Asia Co-Prosperity Sphere*, 81.)

²⁷ Beasley goes to the extent of reminding his readers that "One has to bear in mind that the time-span we are considering was short. Both Shōda [Kazue 勝田主計] and Nishihara were still alive – aged 76 and 72, respectively – when the Greater East Asia Co-prosperity Sphere collapsed in 1945." (Ibid., 120-121.)

viewed Nishihara in light of the annexation of Manchuria in 1931.²⁸ Elsewhere in the book Matsusaka makes a detailed appraisal of the innovativeness of the Nishihara Loans, if only as a novel approach for an old imperialism.²⁹

Table 1 – The main “Nishihara Loans” to China under the Terauchi Cabinet (1917-1918)³⁰

| Date | Name | Amount | Repayment | Rate | Mortgage | Creditor |
|--------|---|----------------|-------------------------|-----------------|--|--|
| 1917/1 | 1 st Loan to the Bank of Communications | 5,000,000 yen | 3 years | 7.5% | 1. Lunghai Railway Bonds 2. Chinese Govt Treasury Bonds 3. Bank of Communications Securities issued to the Chinese Govt. | Industrial Bank of Japan (IBJ), Bank of Taiwan, (BOT) Bank of Chōsen (BOC) |
| 1917/8 | 1 st Cash Advance on the 2 nd Reform Loan | 10,000,000 yen | 1 year | 7% | 1. Finance Ministry Bonds secured on the Salt Gabelle 2. Land Tax (discussed) | Yokohama Specie Bank (YSB) |
| 1917/9 | 2 nd Loan to the Bank of Communications | 20,000,000 yen | 2 years (extended to 3) | 7.5% (later 8%) | Chinese Government Treasury Bonds | The Exchange Bank of China (EBC) (funded by IBJ, BOT, BOC) |
| 1918/1 | 2 nd Cash Advance on the 2 nd Reform Loan | 10,000,000 yen | 1 year | 7% | 1. Finance Ministry Bonds secured on the Salt Gabelle 2. Land Tax (discussed) | YSB |
| 1918/4 | Wire Telegraphy Loan | 20,000,000 yen | 5 years | 8% | All Government Telegraph Property and Revenue | EBC (funded by IBJ, BOT, BOC) |
| 1918/6 | Kirin-Hoiryōng (Kainei) Railway Loan | 10,000,000 yen | 40 years | 7.5% | All Present and Future Railway Property and Revenue | IBJ, BOT, BOC |
| 1918/7 | 3 rd Cash Advance on the 2 nd Reform Loan | 10,000,000 yen | 1 year | 7% | 1. Finance Ministry Bonds secured on the Salt Gabelle 2. Land Tax (discussed) | YSB |
| 1918/8 | Heilungkiang & Kirin Province Gold Mines and Forestry Loan | 30,000,000 yen | 10 years | 7.5% | Gold Mines and State-owned Forests in the two provinces and their revenue. | EBC (funded by IBJ, BOT, BOC) |
| 1918/9 | Cash Advance on the Loan for 4 Railways in Manchuria-Mongolia | 20,000,000 yen | 40 years | 8% | Present and Future Property and Revenue from the 4 Railways | IBJ, BOT, BOC |
| 1918/9 | Cash Advance on the Loan for 2 Railways in Shantung Province | 20,000,000 yen | 40 years | 8% | Present and Future Property and Revenue from the 2 Railways | IBJ, BOT, BOC |
| 1918/9 | [European] War Participation Loan | 20,000,000 yen | 1 year | 7% | Chinese Government Treasury Bonds | IBJ, BOT, BOC |

²⁸ Matsusaka called the Mukden Incident an event which lie in the “fertile imagination of a long line of imperialist statesmen such as Gotō Shinpei, [後藤新平] Kodama Gentarō, [兒玉源太郎] Nishihara Kamezō, Matsuoka Yosuke, [松岡洋右] and Tanaka Gi’ichi. [田中義一]” No attempt is made here to distinguish the differences amongst them, and this is unfair to Nishihara. (Yoshihisa Tak Matsusaka, *The Making of Japanese Manchuria, 1904-1932*. Cambridge (Mass) and London : Harvard University Asia Centre, 2001. 392.)

²⁹ Describing Nishihara’s financial support for Chinese plans to nationalize the steel sector and the Chinese railway network, Matsusaka writes – “Nishihara’s proposal implied a break with traditional concepts of imperialist rights, a readiness to abandon the framework of proprietary concessions that had formed the foundation of Japan’s expansionist strategies since the beginning of the century. Indeed, Nishihara, an advocate of pan-Asian solidarity and economic cooperation, as well as Finance Minister Shōda, who shared similar views, called for reforms in China policy precisely along these lines. [...] Placed in the larger context of the emerging strategy of “bilateral cooperation” with the Tuan regime, the arrangement offered Japan other advantages. It could appease Chinese nationalist sentiment, while actually accelerate economic encroachment. [...] Applied at the broadest level, this strategy might well allow Japan to abandon concession hunting altogether. The reform of China policy represented not a retreat from the nation’s broader imperialist commitments but, rather, a shift from encroachment at the ‘retail’ level, so to speak, to the ‘wholesale’.” (Ibid., 211-213.)

³⁰ A simplified version of the table found on Kubota, Yūji. [久保田裕次] *Taichū Shakkan no Seiji Keizai Shi* (The Political Economic History of Loans to China.) [対中借款の政治経済史] Nagoya Daigaku Shuppankai, [名古屋大学出版会] 2016, 198-199.

Nishihara is usually portrayed as at best an executor of other people's visions. In Kubota Yūji's [久保田裕次] recent (2016) work on the evolution of Japanese Loans Policy to China, Nishihara has been depicted simply as an "unofficial channel" for Terauchi Masatake's secret diplomacy with China, whilst the Loans Policy was actually the brainchild of the Minister of Finance, Shōda Kazue.³¹ For Mark Metzler in *Lever of Empire*, Nishihara is devoid of original thinking, and served only as agent for the visionary Gotō Shinpei.³² One hindrance to understanding Nishihara properly is the popular assumption that Nishihara is too under-educated to have put forward such a strikingly new diplomatic vision; the intellectual component of the plans must have been the work of somebody else with more elevated status and education. Sun Zhipeng, [孫志鵬] whose meticulous research into the Loans is probably unrivalled, unfortunately dismisses Nishihara as "originally just an ordinary rōnin".³³ [西原本為一介浪人] Most of such accounts fail to take into consideration that Nishihara's mentor, Kōmuchi Tomotsune, [神鞭知常] was not only a pacifist Pan-Asianist who advocated "Imperial Way" [王道] politics as opposed to outright imperialist aggression, [霸道] but was also a former Finance Ministry official who had translated many pieces of foreign trade and economic legislation into Japanese, and by the early 1890s had become leader of the National Association of Economics. [國家經濟會] As such it was likely that he passed on to Nishihara, his disciple, knowledge of the protectionist and statist-industrialist advocacies of Friedrich List, Henry Charles Carey and the State Socialism of Adolph Wagner.

For many researchers, the innovativeness of Nishihara's thinking is beside the point when only his imperialistic intent, and indeed, malicious nature, needed to be demonstrated. Yet Michael Schiltz, who admits that the Nishihara Loans turned out to be "a folly and a lost cause",³⁴ nevertheless acknowledged Nishihara's credentials

³¹ Kubota, *Taichū Shakkān*, 252.

³² "Metzler describes Gotō Shinpei as "some sort of apostle for the yen bloc. [...] Gotō's core conception, established as the new cabinet's unannounced policy, was to bring China into a Japanese-led "East Asian Economic League" (Tō-A Keizai Domei) [東亞經濟同盟] and to make large loans to China outside the framework of the international consortium. [...] not only was [Gotō] an original architect of Japanese Manchuria, but he also perceived the world around him as one of competing economic blocs. Gotō's idea of a marriage of Japanese capital and Chinese labour was behind the Nishihara loans to China." (Mark Metzler, *Lever of Empire – The International Gold Standard and the Crisis of Liberalism in Prewar Japan*. Berkeley, Los Angeles & London : University of California Press, 2006, 110.)

³³ Sun, Zhipeng. [孫志鵬] *Waizhai yu Waijiao : Xiyuan Jiekuan Yanyiu (Foreign Debt and Diplomacy : A Study on the Nishihara Loans*. [外債與外交 : 西原借款研究] PhD Dissertation, Northeastern Normal University, [東北師範大學] 2013, 37.

³⁴ Michael Schiltz, *The Money Doctors from Japan – Finance, Imperialism and the Building of the Yen Bloc 1895-1937*. Cambridge (Mass.) and London : Harvard University Press, 2012, 154.

as an original and constructive thinker, and Pan-Asianist idealist at that; he summarizes well Nishihara's basic philosophical position –

“This is not to say that Nishihara was anti-imperialist. [...] Nishihara was, rather, an ideologue, and the quintessential Pan-Asianist: a staunch believer in the potential success of Asian unity and in the need for Asian peoples to work together as much as possible. A Pan-Asian government would have to follow the principle of *wang dao*, the rule of right, rather than the (Western) rule of might. This belief also explains his (and Terauchi's) bitter resentment of the policy of the “Twenty-One Demands” forced upon China by the Ōkuma cabinet.”³⁵

The reason why Nishihara had been deprived of the authorship of this new diplomatic vision may also be explained by the fact that few academic works have analysed Nishihara's domestic reformist advocacies at any significant length.³⁶ Ultimately the problem lies with Nishihara's autobiography,³⁷ which hardly describes any of his ideas for Japan's internal reform, and gives the manifesto

³⁵ Ibid., 136; Nishihara Kamezō, *Yume no Nanajū yonen – Nishihara Kamezō Jiden (A Seventy-something year Dream – The Autobiography of Nishihara Kamezō)* [夢の七十余年 – 西原亀三自伝] Kitamura Hironao, [北村敬直] ed. Tōkyō : Heibonsha, [平凡社] 1965, 72.

³⁶ Namimatsu Nobuhisa, [並松信久] has written a paper on Nishihara's land reform proposals. (See Namimatsu Nobuhisa, “Nishihara Kamezō no Keizai Kōsō to Sangyō Kaihatsu” (“The Economic Vision of Nishihara Kamezō and Industrial Development”). [西原亀三の経済構想と産業開発] In *Kyōto Industrial University Japan Cultural Research Institute Journal* [京都産業大学日本文化研究所紀要] no. 15, 2010 (3), 63-100.)

In Namimatsu's book, *Agricultural Policy Advocacies in Modern Japan*, Nishihara's State Socialism was mentioned, though strangely enough the book chooses to focus on his China policy rather than domestic reformism. (See Namimatsu, *Kindai Nihon no Nōgyō Seisakuron – Chū'iki no Jiritsu wo Tonaeta Senjin Tachi* (Agricultural Policy Advocacies in Modern Japan – The Pioneer Advocates of Local Self-Sufficiency.) [近代日本の農業政策論 – 地域の自立を唱えた先人たち] Kyōto: Showado, [昭和堂] 2012.)

There is also the book *The Political Structure of the Taisho Era* by Suetake Yoshiya which provides a very brief (two page) summary of the manifesto's main contents, though issues such as land, tax and education reforms have been left out. (See Suetake, Yoshiya. [季武嘉也] *Taishōki no Seiji Kōzō* (The Political Structure of the Taishō Period). [大正期の政治構造] Tōkyō : Yoshikawa Kobunkan [吉川弘文館], 1998.)

Kōketsu Atsushi's [纈纈厚] paper on the Mobilisation Bill mentions Nishihara's “Doctrine of Economic State Building” and its contribution to the formulation of mobilizational laws, but failed to discuss Nishihara's State Socialism. (See Kōketsu, Atsushi. [纈纈厚] “Gunju Kōgyō Dō'inbō Seitei Katei ni okeru Gun Zai Kan no Tairitsu to Dakkyō (Jyō)” (“Confrontation and Compromise between the Military and Business during the Drafting Process of the War Materiel Industries Mobilisation Bill – Upper”). [軍需工業動員法制定過程における軍財間の対立と妥協 (上)] In *Seiji Keizai Shigaku* (Political and Economic History) [政治経済史学] 229, 1985 (8), 10-31; “Gunju Kōgyō Dō'inbō Seitei Katei ni okeru Gun Zai Kan no Tairitsu to Datsukyō (Ka)” (Lower) [下] In *Seiji Keizai Shigaku* 229, 1985 (8), 29-48”.)

The PhD thesis by Morigawa Masanori [森川正則] touches upon the element of developmentalism in Nishihara's thinking with regard to his China Policy, but failed to mention Nishihara's domestic reformism. (See Morigawa, Masanori. *Kindai Nihon no Tairiku Mondai to Nishihara Kamezō* (The Continental Question in Modern Japan and Nishihara Kamezō.) [近代日本の大陸問題と西原亀三] PhD dissertation, Ōsaka University, [大阪大学大学院法學研究科] 2002.)

³⁷ Nishihara, *Jiden*.

Strategy for Economic State-Building only a passing mention, diminishing any perception of the manifesto's importance. Mention of the manifesto is equally missing from the compilation of materials on the Nishihara Loans, compiled in the late 1970s by the left-wing economist Suzuki Takeo.³⁸ [鈴木武雄] An important exception is Tsurumi Masayoshi's [齋見誠良] excellent 1976 paper³⁹ on Nishihara's financial reform proposals to provide financing to local industrial and agricultural concerns, in the context of stagnant liquidity at a time of excess capital during the wartime boom. Even then, Tsurumi's paper attributes these financial ideas to Shōda rather than Nishihara and ignores the wider picture of Nishihara's State Socialist industrial vision and its political ramifications. This is whilst Suetake Yoshiya [季武嘉也] identified in the "State Socialism" of Nishihara a greater likeness to Gotō Shinpei's proposals for reforms to maximise the potential within the capitalism system, rather than the State Socialism of Kita Ikki [北一輝] which aimed at the overthrowing of capitalism.⁴⁰

There is practically a void of research on Nishihara's internal reformism and the nature of his State Socialism. Yet this context should have been necessary for understanding Nishihara's views on external policy. Nishihara understood at the time, as Beasley would later judge, that Japan was not in a position to offer the comprehensive assistance that Nishihara's China Policy implied – and precisely because of that, only drastic reform in Japan could deliver Nishihara's promises to China. This is whilst Nishihara's China Policy, had it succeeded, would have greatly aided Japan's internal development. This is the reason why the domestic reforms must be understood within Nishihara's global perspective. In such a scenario, Nishihara's China Policy was just as much an element of his State Socialist vision, and the result of his success in China (and by extension, Korea and Taiwan) would have entailed a State Socialist Transformation of East Asia. What underlie the Nishihara Loans was more than economic imperialism; they emerged from a long

³⁸ Suzuki, Takeo [鈴木武雄] ed. *Nishihara Shakkan Shiryō Kenkyū* (Research Materials on the Nishihara Loans). [西原借款資料研究] Tōkyō : Tōkyō University Press, [東京大学出版会] 1972.

³⁹ This was the result of antiquated banking regulations which did not allow for the existence of a derivatives market, in addition to the dominance in Japan of the British short-term credit retail bank model, rather than the German model of long-term credit industrial banking. Shōda Kazue attempted to promote the latter model, to the resistance of Inoue Junnosuke [井上準之助] at the Bank of Japan. (See Tsurumi, Masayoshi. [齋見誠良] "Nihon Kinyū Shihon Kakuritsuki ni Okeru Nichigin Shinyō Taikei no Saihen" (The Recomposition of the Credit Structure of the Bank of Japan During the Inaugural Period of Japanese Financial Capital) [日本金融資本確立期における日銀信用体系の再編成] In *Keizai Shirin*, [経済志林] 44 (1) (Mar 1976), 133-176.)

⁴⁰ Suetake, *Taishōki no Seiji Kōzō*, 365-366; 403 note 10. Suetake was referring to Gotō's plans for a "Large Investigation Institute"; see section 4.2 in this thesis.

engagement with western economic ideas, represented a continuation of existing State Socialist tendencies in Japanese policy, and epitomized a sincere effort at applying State Socialist ideas to the political economy of Asia.

In this thesis, I will discuss the external and internal circumstances surrounding Nishihara's manifesto, and will compare Nishihara's State Socialism with that of Germany's Walther Rathenau, whose work was an important influence on Nishihara. Their industrial vision will be compared to that of Henri de Saint-Simon and his disciples; this will demonstrate the left-wing reformist origins of State Socialism and provide insight as to why and how it gradually drifted to the right. I will be making use of Nishihara's diaries to reconstruct the interconnected web of personages and ideas in the making of the manifesto, particularly in the Association for the Study of Social Policy. [社會政策學會] Finally, I will discuss the legacy of Nishihara's advocacies, and the place of his ideas in Japanese and Asian modernity.

1.3 *The Chinese Dimension*

This thesis is a transnational history project and is as much about Chinese history as Japanese history, as well as dealing with the German origins of State Socialism. This thesis will argue that rather than being a passive, if not reluctant recipient of Japanese financial aid which it ultimately squandered in military campaigns, China could have been an able partner to Nishihara's plans, and in 1917 the country was on its way to becoming a State Socialist developmental state – something on which there is a void of research, with the popular assumption being that coherent, totalising economic policy and socialist ideology were both absent from Chinese government policy before the establishment of the Communist regime in 1949, let alone during the chaotic late-Manchu and Peiyang eras in the 1900s-1910s. The central tenet is that modern China (or Japan) cannot be properly explained without an appreciation of the continuities that run up to and beyond 1949, or 1945 in Japan's case. Undue focus on the interrupted aspects of their history serve either to confuse, or worse – as E. H. Carr pointed out – to speak for those “losers in history” who are discontented with the present for their idiosyncratic and not always justifiable reasons.⁴¹ The present state of Chinese historiography also rather

⁴¹ “The point is that today nobody seriously wishes to reverse the results of the Norman Conquest or of American independence, or to express a passionate protest against these events; and nobody objects when the historian treats them as a closed chapter. But plenty of people, who have suffered directly or vicariously from the results of the Bolshevik victory, or still fear its remoter

resembles an archipelago of epochal islands upon which large amounts of research are concentrated – for example, late Manchu revolutionary activity in the 1900s, the May Fourth Movement of 1919, the Northern Expedition of the 1920s, the Sino-Japanese War of the 1930s-40s, and the People's Revolution up to 1949. Reading Chinese modern history thus resembles an island-hopping campaign; vast oceans exist in between, where the state of research is either non-existent or deplorable.

An example of such research is Andrew Nathan's [黎安友] 1976 work *Peking Politics 1918-1923* which was painstakingly written and portrayed factional struggles within and without parliament in all of its complexity. Such factionalist analysis tended not to portray such political activities as forms of dynamism with any inherent purpose worthy of intellectual inquest, but rather as opportunistic, short-sighted and selfish interpersonal bickering. His insistence on attributing almost every development to narrow interest-based factional psychology, even 'disintegrative factional behaviour',⁴² amounts to a dangerous reductionism which prevented him from taking into account broader cultural and intellectual tendencies – including the May Fourth Movement or State Socialism – that were often explanatory of the difficult choices taken up by the historical actors that would in hindsight seem unreasonable. Nor could it serve as an explanation for structural failures of governance; he resorts to explaining such "disintegrative behaviour" by stating that Chinese politicians were unused to non-authoritarian modes of governance. China's new, assertive foreign policy, notably the involvement of its new generation of diplomats in the formation of the Versailles-Washington system, was totally absent from Nathan's analysis. Equally missing is any suggestion of the existence of economic ideology; where economic policy is concerned, it is written off as attempts by bureaucrats at enriching themselves.

consequences, desire to register their protest against it; and this takes the form, when they read history, of letting their imagination run riot on all the more agreeable things that might have happened, and of being indignant with the historian who goes on quietly with his job of explaining what did happen and why their agreeable wish-dreams remain unfulfilled. The trouble about contemporary history is that people remember the time when all the options were still open, and find it difficult to adopt the attitude of the historian for whom they have been closed by the fait accompli. This is a purely emotional and unhistorical reaction. But it has furnished most of the fuel for the recent campaign against the supposed doctrine of 'historical inevitability'. Let us get rid of this red herring once and for all." (Edward Hallett Carr, "Ch. 4. Causation in History" In *What is History*. London : Penguin Classics, 2018.)

⁴² Nathan, Andrew. *Peking Politics, 1918-1923: Factionalism and the Failure of Constitutionalism*. Ann Arbor : Center for Chinese Studies, University of Michigan, 1976, 221-224.

On the other end of the spectrum is Zhang Ming [張鳴] whose 2010 work *Peiyang Cataclysm – Warlords and the May Fourth Movement*⁴³ [北洋裂變：軍閥與五四] directs a clear accusation against the entire historical discipline, deemed to be guilty since the time of Chow Tse-tsung's [周策縱] study of the May Fourth Movement, of over-emphasising cultural and literary innovations during the Movement for want of attention towards the political causes which were responsible for starting the Movement – including the Nishihara Loans. “It is as if during the May Fourth Movement, all these important figures in the political arena, suddenly disappeared en masse,”⁴⁴ lamented Zhang. It is therefore a shame that Zhang could not propose anything theoretical on a par with Nathan's factional behaviourism, and doesn't provide anymore in the direction of a continuity structure, with analysis of economic policy also absent.

What these works fail to describe is that by the late 1910s – during the “Anfu Club Regime” under which the Nishihara rapprochement took place – China was remarkably active abroad, on a scale unseen since the loss of Korea in 1895. China's efforts at building a modern technocratic corpus during the reforms of the last decade of Manchu rule paid off by the time of the establishment of the Republic. In addition to an army of able railway and telecommunications administrators, China managed to design and build its own railways, beginning with the Peking-Kalgan Railway [京張鐵路] designed by the Yale-trained engineer Jeme Tien Yow. [詹天佑] By 1915 the Chinese government also boasted a unit of highly-able geologists who were drafting proposals for mines and iron and copper plants, to be financed either by American or Japanese sources. In addition to the Nishihara Loans which aimed at creating an East Asian Economic League, China was training, with the help of Japanese funding, equipment and advisors an Expeditionary Army meant for action in Europe. The premature end to the Great War did not prevent some three hundred thousand labourers to be sent, not only the Western Front, but also to Mesopotamia and Russia. Nor was the Expeditionary Army laid to waste; the reclamation of Outer Mongolia and the occupation of Vladivostok in 1919-20 were the largest Chinese

⁴³ See Zhang, Ming. [張鳴] *Beiyang Liebian : Junfa yu Wusi* (Peiyang Cataclysm : The Warlords and the May Fourth Movement) [北洋裂變：軍閥與五四] Guilin : Guangxi Normal University Press, [廣西師範大學出版社] 2010.

⁴⁴ Ibid., 3.

military operations outside its normative administrative borders until the Burma Campaign of the Second World War.⁴⁵

On the domestic front, the evolution of parliamentary institutions to accommodate for new alliances of political interest culminated in the establishment of the bicameral Parliament whose two chambers were distinguished by their voting threshold, which was increased from levels set in 1912 – the Senate now being restricted to men paying a tax of \$100 or more per annum, whilst the House had a much lower requirement, at only \$4 per annum. Such arrangements were not uncommon at the time internationally and they seem to lend proof to the oft-disputed judgement that Republican China had been or had at least intended to be a “Bourgeois Democracy”. Liang Ch’i-ch’ao, [梁啟超] a believer in the political stabilising function of the Mandarin-literati class whom he thought only needed to transform itself into a class of capitalists before assuming the responsibilities of guiding the new Republic,⁴⁶ was himself instrumental to drafting these voting regulations in 1918, and later authored the explanatory note which was appended to the 1919 Draft Constitution. His intention to have the Literati class at the reins of a developmental-authoritarian state is clear beyond doubt. Such developments can only be explained via ideological motivations rather than factionalism; and ideologies are slow-evolving subjects.

“Island-hopping” denies the history reader a coherent view of the structural continuities that serve to bridge one from an island to the next – in other words, to guide one from the past to the present. On the fronts where research has made veritable progress, such as diplomatic, military and constitutional history, the interruptions to policies and institutions were so severe that it is impossible to speak of continuities, except when boiled down to simple formulae such as the “growth of nationalist diplomacy”. Nishihara’s State Socialism, his domestic reform proposals and external loans policy present a good opportunity to rectify this problem; they were as much the culmination of Chinese attempts at internal reform as they were of equivalent Japanese attempts, and indeed they serve as the intersecting point between economic and diplomatic history. The Nishihara episode

⁴⁵ Arguably, Chinese participation in the international anti-Bolshevik effort fulfilled the criteria, in the eyes of the West, of an equal partner; this very likely contributed to China’s reclamation of German possessions after the Washington Conference of 1921-22.

⁴⁶ Zhang, Pengyuan. (Chang, P’eng-yuan) [張朋園] *Liang Qichao yu Minguo Zhengzhi* (Liang Ch’i-ch’ao and Republican Politics) [梁啟超與民國政治] Changchun : Jilin Chubanshichuan, [吉林出版集團] 2007, 19.

was only one of a long line of attempts in both China and Japan to establish State Socialism/State Capitalism, and it was neither the first nor the last of such experiments. The point being made here is that the emergence and growth of State Socialist/State Capitalist economic policy can serve as the main structural continuity from the late-Manchu period up to the formation of the PRC and beyond; it also explains the transition of Japanese economic policy from late-Meiji to after WW2.

This does not apply to China and Japan alone. Two decades ago it might have been possible to explain away the relative poverty of China, Vietnam and North Korea, contrasted against the rise of the four Asian tigers and Japan, as the result of free(r) capitalism; that their success was due mostly to post-war developments, or due to some elements of a legacy of wartime mobilisation, but the probe hardly extends beyond the 1920s. With the rise of Market Socialist/State Capitalist China, whose model had never been as idiosyncratic as it would seem, and the realisation that the capitalism of the four Tigers and Japan had not been as free as is commonly imagined, in addition to the impending reform and opening-up of North Korea, suggests an urgent need to reinterpret the deep statist historical continuities in Chinese, Japanese and Korean economic policy – such would serve as a mirror for the rest of Asia and indeed the developing world. Recent innovations in economic theory, such as the Neo-Structuralist School championed by Justin Yifu Lin,⁴⁷ has argued for a reassessment of the role that governments should play in emerging economies, and has attempted to introduce the Asian experience to third world nations in other parts of the world.

Unfortunately, in the historiography of East Asian Developmentalism, rarely have western origins other than Marxist ones been discussed. A plethora of work exists on early nationalist or socialist economic advocacies in China; yet the former concentrates on advocacies amicable to the growth of private capital against a “reactionary” assertion of state economic control, without asking under what context state direction, save under the Communist Party (and in recent scholarship, the interwar Kuomintang), would be seen as serving a constructive purpose. This is whilst the history of early socialism in China concentrates almost entirely on examples of early mentions of Karl Marx or of Marxism, with undue neglect for other varieties of socialism, particularly State Socialism – which, as we shall see,

⁴⁷ Justin Yifu Lin, *Economic Development and Transition – Thought, Strategy and Viability*. Cambridge University Press, 2009.

performed much more than a transitional function in the evolution of Chinese economic ideology. The work of Xu Weiguo [徐衛國] and Xu Jiansheng [徐建生] on late-Manchu and early-Republican economic thinking⁴⁸ – an elegant book both bold in its assertions and concise in its evidence in portraying a vibrant ideological scene in economic policy – serves as the point of embarkation; but even they haven't been able to explain trans-national interconnectedness or long-term continuities of economic ideas in any useful way. This is the task that this thesis has taken up.

1.4 How to Interpret Nishihara's proposals

Nishihara's proposals represent one of a long line of attempts by Asian thinkers during the first decades of the 20th century to grapple with State Socialist and Pan-Asianist ideas, and his amalgamation of the two is rare. Nishihara's vision was in every way Developmentalist, because it fulfilled each of Developmentalism's three criteria – economic rationalisation, large-scale infrastructural construction, and GNP "growthism". By justifying his advocacies for a State Socialist planned economy and cooperation with China on a GNP growth target of 200 yen per capita from a mere 60 yen, Nishihara had started in 1918, at a time when Japanese imperialism was ascendant, to do what "growth publicists" would commit themselves to in Post-war Japan – "to expand Japanese notions about what level of material and social prosperity their nation might be able to achieve [as] an acceptable replacement for the bankrupt national languages of imperial power, racial mission, and cultural purity of the colonial and wartime pasts"⁴⁹ The ill-timing explains why Nishihara's proposals fell on deaf ears. What distinguishes Nishihara, and makes him worthy of study, is his materialistic approach to domestic and international issues, in comparison to the unhelpful idealism found in rival proposals for Sino-Japanese integration written by the likes of Tanaka Gi'ichi. In all, Nishihara and his predecessors in the State Socialist field – from Bismarck to Chow Hsueh-hsi – are important examples to show that Developmentalism, usually associated with the Cold War, has a much longer history than academics would like to suggest. It also suggests that a rational, reciprocal Pan-Asianism could have become mainstream, and was indeed close to being so.

⁴⁸ See Xu, Jiansheng [徐建生] & Xu Weiguo. [徐衛國] *Qingmo Minchu Jingji Zhengce Yanjiu*. (A Study of Economic Policy at the End of the Ch'ing Dynasty and the Early Republican Period) [清末初經濟政策研究] Guilin: Guangxi Normal University Press [廣西師範大學出版社] 2001.

⁴⁹ O'Bryan, *Growth Idea*, 6, 10.

The phenomenon of “economic imperialism” can be attributed to the tendency of State Capitalist Trusts to engage in vertical annexation.⁵⁰ Nishihara’s vision of an East Asian Economic League was to place Japan, China and East Asia within a single “State Capitalist Trust”, even though he was adamantly against Japan’s military annexation, first of Korea, and then of China. Nevertheless, this thesis argues that Nishihara’s autarkic vision was not economic imperialism, and it must be stressed that the vision has its roots in Japan and China’s similar urges for politico-economic ‘peripheral rebellion’, to stem the flow of economic surplus to the core nations – there was a genuine coincidence of interest. Although such a project was in hindsight doomed to fail, it provided the conditions for their modernity to be co-constituted, and for cooperation between them to be once regarded as viable and desirable. This ‘peripheral rebellion’ impulse was the same as that which drove the American Revolution and German Nationalism against the economic centre of the time – the British Empire. The need for economic protection and resistance, evolved into a ‘catch-up’ strategy that necessitated a ‘plan rationality’. This placed trust in the able, scientific direction of the state in economic mobilisation – an Enlightenment-era belief, first practiced by monarchical reformers as French Mercantilism, then modernised for the industrial age by Saint-Simon and List. In the United States and Germany, the tendency was represented by Hamiltonian Republicanism and Bismarck’s State Socialism; in Russia this was industrialisation under Sergei Witte, who was inspired by Friedrich List,⁵¹ and in the Austro-Hungarian Empire, the infrastructural ambitions of Ernest von Koerber.⁵² By the time it was Japan and China’s turn to catch up, the slogan “Rich Country, Strong Army” [富國強兵] would be a response to the expanded core – the “west” – which comprised of these erstwhile “catch-up” nations; they had successfully reduced Britain from its hegemonic position to a shadow of its former self – especially after the First World War.

⁵⁰ As Bukharin writes – “When one country, one state capitalist trust, absorbs another, a weaker one possessed of comparatively the same economic structure, we have a horizontal centralisation of capital. Where, however, the state capitalist trust includes an economically supplementary unit, an agrarian country for instance, we have the formation of a combine. Substantially the same contradictions and the same moving forces are reflected here as within the limits of “national economies”; to be specific, the rise of prices of raw materials leads to the rise of combined enterprises. [...] An example of a horizontal imperialist annexation is the seizure of Belgium by Germany; an example of vertical annexation is the seizure of Egypt by England.” (Bukharin, *Imperialism*, 120-121.)

⁵¹ Roman Szporluk, *Communism & Nationalism*. New York : Oxford University Press, 1988, 209-211.

⁵² See Alexander Gerschenkron, *An Economic Spurt that Failed – Four Lectures in Austrian History*. Princeton : Princeton University Press, 1977.

The global popularity – in Japan, Russia, the Ottoman Empire⁵³ and India, amongst other places – of Friedrich List's statist protectionist industrialism, which in turn absorbed the *esprit* of early Saint-Simonianism and aided the spread of the model of financial capital established by the Pereires, provided the ideological unity beneath such peripheral rebellion. Listianism smoothed the way for the transition to forms of statist, industrial socio-economic organisation inspired by Marxism and Walther Rathenau, as Roman Szporluk showed in the case of Revolutionary Russia.⁵⁴ Such ideologies, particularly State Socialism, implied an industrial-compatible, developmentalist design of the 'nation-state'. This is whereby a redefined nationalism conferred upon state agents the mandate for effective developmental mobilisation and measure the government's performance on its ability to deliver industrially. Meeting developmentalist goals, and thus, achieving success in the peripheral rebellion, provided legitimacy. Such ideologies thus determined the paradigms of developmental economic choice and hence, of state institutional-building in Japan, China and Korea in the 20th century. To build up the autonomy, capacity and rationality of state institutions would be prerequisite to directing developmental strategy. Within the context of China and Japan in around 1910, this implied the strengthening of State Capitalism. To economic Pan-Asianists such as Nishihara, effective trans-national coordination would guarantee success in industrial catching-up, and hence, victory in the 'peripheral rebellion'. Beaseley, for example, saw Nishihara as one of the "other Japanese" who didn't fit in with orthodox imperialism, and instead –

"saw a different objection: that it put Japan on the 'wrong side' in an exploitative relationship between the West and Asia. To them, a better alternative would have been Sino-Japanese partnership. There were many who advanced the idea as a denial of imperialism. To others it was a reformulation of imperialist intent, anticipating a state of affairs in which China's markets and resources would be put at the disposal of Japanese industry in the name of resistance to the West. This was much how it was

⁵³ See Hüseyin Sefa. Ünal, *Friedrich List, Ziya Gökalp and the National Economy Thesis in the Ottoman Empire*. Masters Thesis, Middle East Technical University, 2013.

⁵⁴ Lenin thought that "backward countries [...] would 'strive to attain the achievements of the leading societies and improve on them'. This Leninist typology, and Lenin's program as a whole, were obviously Listian, not Marxist. [...] Lenin's dialectics of international relations were derived from Friedrich List and Alexander Hamilton." Alfred Meyer, *Leninism*. (New York: Praeger, 1965), 261, 264. Quoted in Szporluk, *Communism & Nationalism*, 216.

seen by men like Terauchi and Nishihara, who first gave concrete form to the notion of ‘co-prosperity’.”⁵⁵

In Germaine A. Hoston’s view, “modernity refers to the collective ability of a society to mobilise its resources to provide for the well-being, autonomy, and security of the social unit, usually a nation state.”⁵⁶ By the time of the First World War, the struggle to co-opt diversifying social interests created by development and international competition, had necessitated the State Socialism of Bismarck and Wagner, and later, Rathenau’s mobilizational methods. These policies were viewed in Japan and China, beginning in the late stages of WWI but increasingly towards the 1930s, as methods to increase state autonomy⁵⁷ and thence, coordinate development, in addition to creating the conditions for ‘autarky’ or other forms of Pan-Asian ‘peripheral rebellion’. The Greater East Asian Co-Prosperity Sphere was essentially imagined as a planned economy.⁵⁸ As such the realisation of Pan-Asian developmental mobilisation is one possible form of modernity. According to Hoston, modernity also refers to the condition where “the individual seeing him- or herself as a subject of human history, as a conscious, initiating, and active being in relation to the society in which she lives and, as such, feeling capable of participating in the public business of her society.”⁵⁹ Thinkers of ‘peripheral rebellion’, guided by industrial paradigms of political authority, i.e. an industrial ‘ideological state apparatus’,⁶⁰ depended heavily on the perceived rationality of state direction, extolling the need to restructure, and even overthrow state apparatuses that could not fulfil such developmental expectations. It is in this sense that Nishihara’s State Socialism should be regarded as emblematic of modernity and as a significant product, indeed a milestone in the emergence of the Developmental-Authoritarian, State Socialist/State Capitalist Phase of East Asian history. This thesis will also be an attempt to explore the **limits** of an **alternative** response, derived from the Sino-Japanese failure at regional integration, to the following conjecture stated by Ernest Gellner, author of *Nations and Nationalism* –

⁵⁵ Beasley, *Japanese Imperialism*, 254.

⁵⁶ Germaine A. Hoston, “The State, Modernity, and the Fate of Liberalism in Prewar Japan”. In *The Journal of Asian Studies* 51 (2) (May 1992), 289.

⁵⁷ See Theda Skocpol, “Introduction”, in Evans, Peter B., Dietrich Rueschemeyer and Theda Skocpol, eds. *Bringing the State Back In*. Cambridge : Cambridge University Press, 1985, 3-38.

⁵⁸ Jeremy A. Yellen, *The Greater East Asia Co-Prosperity Sphere – When Total Empire Met Total War*. Ithaca : Cornell University Press, 2019. Pre-publication manuscript, 87.

⁵⁹ Hoston, “Liberalism in Prewar Japan”, 290.

⁶⁰ In such a scenario the existence of an “ideological state apparatus” can precede the material existence of the state itself and provide the blueprint for the future set-up of the envisioned regime.

“Why should the political institution, the centralised state, presiding over the development of a backward area, necessarily be a national one? [...] Why should it not be a non-national empire, such as that of the Habsburgs or the Ottomans? [...] it is not immediately clear why the developmental state, a protector of industry not of faith, had to be a national one. I believe that this is indeed so, but the reasons are not self-evident, and the interesting question is – did [Friedrich] List understand them? He saw that nationalism had to be economic, but did he also see that and why politically guided development had to be national?”⁶¹

This thesis will argue that ‘Pan-Asianism’, justified in Nishihara’s view on an economic case for trans-national peripheral rebellion, was one such industrial ‘ideological state apparatus’ which possessed great potential to be operationalised as an integrated ‘unit of development’. It could have enabled a feasible step forward for Asia, especially during WWI, and was in fact almost materialised. Exploration in this direction might shed light on how western paradigms contributed via global mechanisms to the otherwise idiosyncratic-appearing East Asian modernity – which, as this thesis demonstrates, has always been firmly situated within broad international currents.

⁶¹ Gellner, *Encounters with Nationalism*, 18

2. The Theory and Practice of State Socialism

2.1.1 *State Socialism, State Capitalism and State Monopoly Capitalism*

Before this thesis can proceed it is necessary to explain two sister concepts – State Socialism and State Capitalism. The first, “State Socialism”, has always been a non-entity for orthodox Marxists like Engels, Lenin and Bukharin, and it is dismissed as a deceiving alias either for State Capitalism or State Monopoly Capitalism⁶² – these being, in the view of all three Marxists, economic forms of such unprecedented strength and coherence that needed to be seriously tackled by the proletarian socialist movement. This is whilst non-Marxist, or Trotskyist writers have referred to the Leninist-Stalinist system of socio-economic organisation as State Socialism, with David Lane’s works being an example.⁶³ The origins of State Socialism before 1917 were, according to such authors, to be found not so much in the Bismarckian German state, but in Engels and Lenin’s embrace of the “state” – supposedly valid only under a proletarian dictatorship, as a transitory tool to achieve communism. This poses analytical difficulties, for orthodox Marxism does not recognise the state as an end in itself, nor is State Socialism has not been described as transitional. One is forced to see the statist tendencies of the Leninist-Stalinist economy as nothing but a corruption of Marxism, rather than a logical development of, or even an innovation to, existing tendencies in the development of the economic state.

Engels certainly did not see Bismarck’s State Socialism as genuine socialism. Dismissing totally the element of social welfare under Bismarck, Engels took to task the issue of ownership. Bereft of the foresight that much of 20th century socialism would concern itself with the nationalisation of industrial and financial institutions, Engels called nationalisation “a kind of spurious Socialism, degenerating, now and again, into something of flunkysm, that without more ado declares *all* State-ownership, even of the Bismarckian sort, to be socialistic.” Engels added that –

“If the Belgian State, for quite ordinary political and financial reasons, itself constructed its chief railway lines; if Bismarck, not under any economic compulsion, took over for the State the chief Prussian lines, simply to be the better able to have them in hand in case of war, to bring up the railway

⁶² Referred to in Chinese as “國家壟斷資本主義” and in Japanese “國家獨占資本主義”

⁶³ David Lane, *The Rise and Fall of State Socialism: Industrial Society and the Socialist State*. London : Polity, 1996 and *The Socialist Industrial State – Towards a Political Sociology of State Socialism*. Boulder, Colorado : Westview, 1976.

employees as voting cattle for the Government, and especially to create for himself a new source of income independent of parliamentary votes — this was, in no sense, a socialistic measure, directly or indirectly, consciously or unconsciously.”⁶⁴

Clearly, state ownership is not the qualifier for Engels of what consists “socialism”. Moreover, Engels’ emphasis, inherited by other orthodox Marxists, was on the “planned” nature of capitalism under self-proclaimed State Socialist economies. Speaking of Germany in the 1890s, Engels wrote that “When we pass from joint-stock companies to trusts which assume control over, and monopolize, whole industries, it is not only private production that ceases, but also planlessness.”⁶⁵ Even then, planned capitalism does not make socialism. For Lenin essentially, State Socialism or any kind of socialism devoid of proletarian control of the state apparatus was naturally bogus socialism, and only qualifies as a form of State Capitalism, noting in 1917 that –

“the erroneous bourgeois reformist assertion that monopoly capitalism or state-monopoly capitalism is no longer capitalism, but can now be called “state socialism” and so on, is very common. The trusts, of course, never provided, do not now provide, and cannot provide complete planning. But however much they do plan, however much the capitalist magnates calculate in advance the volume of production on a national and even on an international scale, and however much they systematically regulate it, we still remain under capitalism – at its new stage, it is true, but still capitalism, without a doubt.”⁶⁶

What this thesis argues however is that this “reactionary” State Socialism, as viewed by its proponents – Otto von Bismarck, Ferdinand Lassalle, Adolph Wagner, Walther Rathenau, Nishihara Kamezō, Sun Yat-sen, Liang Ch’i-ch’ao [梁啟超] and Chow Hsueh-hsi [周學熙] – had a real, concrete ideological existence; they thought of it as a Developmentalism balanced between its social welfarism and its industrialism – a win-win formula for everyone concerned – and it was practicable regardless of the class properties of the state. State Socialism, rather than simply camouflaging State

⁶⁴ Friedrich Engels, *Socialism : Utopian and Scientific*. New York : Mondial, 2006.74 note 4.

⁶⁵ *Neue Zeit*, Vol. XX, 1, 1901-02, p.8, quoted in Vladimir Lenin, *State and Revolution*. Chicago : Haymarket Books, 2015, 105.

⁶⁶ *Ibid*, 105.

Capitalism, was for its proponents the *nom de guerre* of a State Capitalist Developmentalism that also took care or even pre-empted the social ills brought by industrialisation. This thesis advances the view that two distinct phases of State Socialism existed – the first, in 1879-1914, was represented by Bismarck, Lassalle, Wagner, Sun, Liang and Chow. This phase was characterised by state intervention to provide basic social welfare to relieve the social tensions caused by capitalist exploitation, in addition to state ownership of limited sections of the economy that required capital investment beyond the capacity of private entrepreneurs, such as the railways. This takes place within the broader context of a generally free capitalism which may or may not be eroded by state encouragement of cartelisation.

Phase Two State Socialism began in 1914 with wartime mobilization under Rathenau's reorganisation of German industry, involving the semi-nationalisation of cartels that allowed direct state interference in the production and investment decisions of private firms; this Nonliberal Capitalism, one that completes the economy's transformation into what Bukharin calls a "State Capitalist Trust", is precisely the State Socialism triumphed by Nishihara. Lenin's War Communism, essentially Rathenau's model together with full state ownership over industry, and is a development of Phase Two State Socialism. This is since private ownership, or the absence thereof, does not determine whether an economic system is capitalist or not. The transition from Phases One to Two of State Socialism – i.e. from State Capitalism to State Monopoly Capitalism – involved more cartelisation, deeper state intervention, more intensive planning, and finally, the "militarisation"⁶⁷ of the economy. The transition represented a growth of productivity and represents a real economic advance, as forecast by Engels.⁶⁸ As Moshe Lewin writes –

"According to Bukharin the main characteristic of contemporary capitalism was a new interventionist role of the state culminating in a new phase of economic development in which, contrary to the previous laissez-faire principles, the economy was organised and planned by the capitalist state.

The German war economy served, then and later, as corroboration for such

⁶⁷ Lavoie, *National Economic Planning*, 230.

⁶⁸ "...only when the means of production and distribution have actually outgrown the form of management by joint-stock companies, and when, therefore, the taking them over by the State has become economically inevitable, only then — even if it is the State of today that effects this — is there an economic advance, the attainment of another step preliminary to the taking over of all productive forces by society itself." (Engels, "Historical Materialism", in *Socialism: Utopian and Scientific*, note 4.)

statements and was seen by Bukharin as indicating a new and frightening tendency toward the emergence of a Leviathan of unprecedented strength [...] the imperialist states underwent a transformation that forced a revision of Marx: “organised capitalism” seemed able to overcome the chaos of market economies and to master the anarchic tendencies that should have led to an internal breakdown as expected by Marx.”⁶⁹

Planned Capitalism, therefore, does not consist Socialism in Engels’ view. Yet it does not preclude the possibility of socialist inspiration in the setting up of planned capitalism. China’s Socialist Market Economy is a case in point. The Post-war Japanese economy is characterised by control over production and investment decisions exerted by the Ministry of International Trade and Industry (MITI) with varying degrees of success. South Korea engaged in economic planning and deliberate fostering of monopolistic “chaebol” [財閥] conglomerates under Park Chung-hee. Both the Japanese and South Korean systems left some room for the free market. Nevertheless they represent in the eyes of some academics, notably Ōuchi Tsutomu, examples of “State Monopoly Capitalism”. This thesis will show that Japan and South Korea’s economic model was indeed deeply indebted to State Socialism.

Throughout this thesis, Phase One State Socialism means State Capitalism plus a basic welfare state, but the stress is on the State Capitalist element. Phase Two State Socialism is interchangeable with State Monopoly Capitalism, but in special cases such as Rathenau’s Germany, wartime State Socialism implied certain compromises with labour demands and the formation of a rudimentary welfare state. The usage of which set of terminology depends wholly on whether the proponents of State Socialism or its Marxist detractors form the subject of inquiry. In describing the State Socialism of Walther Rathenau and Nishihara Kamezō therefore, this thesis will refer to their ideology in the same way its proponents did; this does not conceal the fact that State Socialism was anything but socialist in Marxist terms. Lenin has adamantly shown that despite it being unfree capitalism, “Phase Two State Socialism” is still in nature capitalist. Yet as we shall see, the irony lies in how Lenin practically regarded State Monopoly Capitalism, i.e. Rathenau’s State Socialism, as socialism minus proletarian political power, and argued that, save for the need for a revolution, no intermediary step is required for the transition from

⁶⁹ Moshe, Lewin. *Political Undercurrents in Soviet Economic Debates – From Bukharin to the Modern Reformers*. Princeton and London : Princeton University Press, 1974, 5.

State Monopoly Capitalism to Socialism. What is meant is that the operational structure of State Monopoly Capitalism could transition intact into proletarian control to become the structure of a Socialist economy. The difference between State Socialism and State Capitalism or State Monopoly Capitalism is therefore merely rhetorical.

2.1.2 *The European Origins of Developmentalism*

In *Imperialism and World Economy*, a pamphlet published in 1917, Bukharin described the process by which national economies became what he called “State Capitalist Trusts”; at this stage intervention from the state takes the form of the permeation of private industry by state capital.⁷⁰ The process described by Bukharin, i.e. the formation of industrial trusts penetrated by banking capital, was first begun by the disciples of Henri de Saint-Simon. Saint-Simonian ideology passed through two stages – the first, socialist stage emphasised the importance of planning to “scientific socialism”, which was “a phrase first used by the Saint-Simonians”.⁷¹ The second stage involved a Capitalist turn, whereby the Saint-Simonians began to regard the bank as a more important organ than the government with which to implement their socialist schemes – a vision carried out by the Jewish Pereire Brothers who set up the Credit Mobilier bank in France to fund industrial projects.

Henri de Saint-Simon was a veteran of the American War of Independence, having taken part in the Yorktown Victory of 1781. In the aftermath of the Napoleonic Wars, he and his disciples looked up to American revolutionary liberalism and to the industrial policies of Hamiltonian Republicanism, contained in three reports published in 1790-1 on Public Credit, the creation of a National Bank and the Protection of Manufactures. These documents were mostly penned by Hamilton’s secretary Tench Coxe, who was in turn influenced by the Neo-

⁷⁰ “...when a trust produces outside of its main product also a by-product, it shows a tendency to monopolise this latter branch of production, which in turn serves as a stimulus to monopolising the production of goods used as substitutes for the by-product; then comes the tendency to monopolise the production of raw materials used for the production of the substitute [...] The entire process, taken on a social scale, tends to turn the entire “national” economy into a single combined enterprise with an organisation connection between all the branches of production. The same process is going on with great rapidity in another way: banking capital penetrates industry, and capital turns into finance capital. [...] The example of the German Empire Bank (Reichsbank) is of particular interest. [It] appears so closely connected with “private economy” that there is an unsettled dispute going on as to whether it is a stock company or a state institution, whether it is subject to the laws governing private or public undertakings.” (Nikolai Bukharin, *Imperialism and World Economy*. London : Martin Lawrence Limited, 1929.70, 73.)

⁷¹ Lavoie, *National Economic Planning*, 216.

Mercantilism of Jean-Baptiste Colbert, Minister of Finance under Louis XIV.⁷² A second influence on Saint-Simon, also in turn influenced by Colbert's "Dirigisme", was the chemist Jean Antoine-Chaptal. As Interior Minister under Napoleon he was responsible for France's early industrialisation, and his thesis, entitled *On the Progress of the Agricultural and Manufacturing Industry during the Past Thirty Years*, which argued that "science and industry were closely interrelated", was "a favourite with Saint-Simon".⁷³ The Saint-Simonians morphed these influences into a socialist industrialism, what Alexander Gerschenkron called "a system of planned economy designed to direct and develop the economy of the country".⁷⁴ This would have resolved at once the problems with the lingering power of the unproductive nobility and clergy, the slow pace of continental development, and the social maladies that "catching-up" with Britain would inevitably bring. The socialist industrial system was to be implemented in France, and in a future political union in Europe, with global ramifications in mind – Henri de Saint-Simon was an early advocate of the Panama and Suez canals, and highlighted international infrastructural connectivity in his industrial utopian vision. After Saint-Simon's death in 1825, it was his chief disciples Prosper Enfantin and Amand Bazard, instead of Karl Marx, who –

"first articulated the goal of a comprehensively planned society: a hierarchical organisation of the whole world's industries into 'a vast workshop, labouring under a common impulse to achieve a common goal.'⁷⁵ To be sure, Marx and the Young Hegelians often proposed democratic processes for the carrying out of the common plan, while the **Saint-Simonians were quite authoritarian**. But the very notion of organising industry according to a common plan traces directly to Saint-Simon and had as its original models military and feudal organisations. Saint-Simon patterned his various chambers or ministries of planning after a number of permanent advisory bodies that had been created by Napoleon and Louis XVIII.⁷⁶ They conceived of their 'Industrial Society' as a hierarchical

⁷² See Bernard Mason, "Alexander Hamilton and the Report on Manufactures : A Suggestion". In *Pennsylvania History : A Journal of Mid-Atlantic Studies*, 21 (3) (July, 1965), 288-294.

⁷³ Frank Edward Manuel, *The New World of Saint-Simon*. Notre Dame : University of Notre Dame Press, 1963, 196.

⁷⁴ Alexander Gerschenkron, *Economic Backwardness in Historical Perspective : A Book of Essays*. Cambridge, Massachusetts : Harvard University Press, 1962, 23.

⁷⁵ Elie Halevy, *The Era of Tyrannies* (Garden City, NY : Doubleday, 1965), 60. Quoted in Lavoie, *National Economic Planning*, 217.

⁷⁶ Halevy, *The Era of Tyrannies*, 48-49. Quoted in Ibid, 217.

administration of the whole of society's resources under the direction of the 'captains of industry', among whom bankers are prominently included."⁷⁷

In the Revolution of 1830 against the Bourbon Monarchy, the Charbonniers, amongst whom existed Saint-Simonians like Amand Bazard, hoped to install the Marquis de Lafayette as dictator in exchange for socialist economic reforms;⁷⁸ "Lafayette's republic would mean sharing political power with the unpropertied";⁷⁹ this offer was however refused, and without firm economic vision, the French economy slid under the Orleanist Monarchy into a recession which was partly responsible for the 1848 Revolution, by which time left-wing Saint-Simonianism had evolved into the socialism of Proudhon and the young Marx. The failed attempt to establish the Lafayette dictatorship suggests a pattern of things to come, not only in Europe but also in Asia - the search for an authoritarian industrial system that would not only be an "enlightened" despotism, but to be a planned economic order that is both redistributive and developmental. Not only was this not a betrayal of liberty, it was precisely the goal of the revolution to bring the developmental dictatorship to power, so as to permit it to liberate the people from material constraints – in other words, a logic of positive liberty. In this sense the Lafayette episode is instructive of what would eventually happen on a much wider scale in the 20th century.

The 1830s-40s marked a Statist phase for the Saint-Simonians and their sub-currents. Philippe Buchez, who "claimed to be the faithful inheritor of Saint-Simon" and his new, industrial Christianity, became a pioneer of "Social Catholicism",⁸⁰ and saw the task of "social engineers" to be "defined as continually proposing solutions and encouraging their implementation." Buchez's solution was that the State should be "an economic actor in its own right", whose fiscal resources allows it to "begin a programme of major works, investing in roads, education and agriculture" in addition to forceful social redistribution by "encourage[ing] a transfer of resources (taken from the idle and other parasites) to a 'general public credit fund'"; this would allow "resources and capital [to] be distributed according to capacities and productive use."⁸¹ An arguably more important figure was the economist Constantin Pecqueur, whom "with his belief that the Jacobin state must be the sole owner and

⁷⁷ Ibid., 217. Emphasis mine.

⁷⁸ Booth, Arthur John. *Saint-Simon and Saint-Simonism: A Chapter in the History of Socialism in France*. London: Longmans, Green, Reader and Dyer, 1871. 116-117

⁷⁹ Harlow Giles Unger, *Lafayette*. Hoboken: John Wiley & Sons, 2003. 366.

⁸⁰ Frobert, Ludovic. "French utopian socialists as the first pioneers in development". In *Cambridge Journal of Economics* 35 (4) (July 2011), 734.

⁸¹ Ibid., 736.

organiser of all property”,⁸² formed the left wing of the later Saint-Simonians, and his works were often quoted by Karl Marx. Pecqueur’s notion of future society based on an “Association nationale” would, according to Iwamoto Yoshihiro, [岩本吉弘] bear certain similarities with the concept of the Soviet Union – the whole country being “one large workshop” with all means of production “socialized and nationalized”, whilst being internally democratic with a government composed of directly-elected representatives;⁸³ this popular-sovereign state would assume the form of a gigantic, unified administrative organisation in charge of all aspects of the economy – labour, production, circulation and even consumption. Production plans would be drawn upon estimates of the total needs of the citizenry based on consumption trends during the past years, and production targets assigned to each region according to their productive capacities.⁸⁴ Economic “anarchy” could thus be eliminated, whilst preserving some degree of individual freedom – an idea that Iwamoto believes to have fused together the original Saint-Simonian vision of an “authoritarian industrial society” with the liberal socialism of Charles Fourier, another prominent Saint-Simonian.⁸⁵ As a result, “Pecqueur has been called the real father of state socialism”⁸⁶ and could be seen more or less as an indirect forerunner to Rathenau’s and Nishihara’s State Socialism.

The events of 1848 produced Louis Bonaparte, who became Emperor Napoleon III in 1852. As Gerschenkron notes, “A large proportion of the men who reached positions of economic and financial influence upon Napoleon’s advent to power [...] belonged to a rather well-defined group. They were not Bonapartists, but Saint-Simon socialists.”⁸⁷ Pecqueur became secretary to Louis Blanc, who led the short-lived Luxembourg Commission which investigated labour problems, until it was disbanded by June 1848 by the so-called “Party of Order”, which also closed the National Workshops for the unemployed, and broke up the workers’ barricades with the help of troops under General Cavaignac. Blanc fled to Britain, and the new regime’s brief flirtation with the left was brutally terminated. In the 1850-60s,

⁸² Ibid., 429.

⁸³ Iwamoto, Yoshihiro. [岩本吉弘] “Pekūru Nōto : Kokka Shakai Shugi no Seiritsu Katei”. (Pecqueur Note : The Process of the Formation of a State Socialist Vision) [ベクール・ノート : 国家社会主義構想の成立過程] Tokyo : Hitotsubashi Daigaku Shakai Kagaku Kōden Shiryō Sentā. [一橋大学社会科学古典資料センター] Study Series, 30. 1.

⁸⁴ Ibid., 2.

⁸⁵ Ibid., 37.

⁸⁶ Loubère, Leo A. “The Intellectual Origins of French Jacobin Socialism”. In *International Review of Social History*, vol. 4, 1959 (3), 429.

⁸⁷ Gerschenkron, *Economic Backwardness*, 23.

amidst the economic liberalisation carried out by Napoleon III, which began with removing subsidies and protective tariffs that suffocated the French economy,⁸⁸ Saint-Simonianism was transformed into a capitalist ideology. Industrial finance was to be a component of social policy, to make “a priority of the ‘improvement of credit, which, by facilitating exchange, continuously increases social riches, multiplies the work instruments, and improves the workers’ lot”⁸⁹ – a sentiment that was to be echoed by Nishihara, seventy years later. The capitalisation of Saint-Simonianism was spearheaded by the Pereire brothers, particularly Isaac Pereire, for whom Saint-Simonianism was a religion rather than an economic doctrine;⁹⁰ Isaac Pereire ended up contributing “more than any other single person, to the spread of the modern capitalist system in France.”⁹¹ In contrast to English deposit banks which only offered short term credit, the Credit Mobilier bank established the example of offering long-term credit to industrial projects that the bank would supervise. Such projects complemented government planning – and involved massive corruption.⁹² The Pereires’ Credit Mobilier took up the directive responsibilities of French and Continental industrialisation that a more active state would otherwise have assumed, although the success of the assertive Pereires could be attributed in part to the willing compliance of Napoleon III, whom the Pereires found easily placatable with bribes.

Gerschenkron observed how Saint-Simonianism during the Pereire era paralleled Stalinist industrialisation, by being a “socialist garment draped around an essentially capitalist idea”.⁹³ The capitalist turn in Saint-Simonianism demonstrates how thinly segregated “Socialism”, supposedly transcendent of “Capitalism”, is from Capitalism itself, especially when the latter is not of the laissez-faire variant. The Pereires’ bank-centric vision of planned capitalism, which spearheaded projects from Spain to Russia and the Suez, forced the Rothschild banks to take a more active role in investment, and inspired the German model of industrial finance; “the bank is compelled to place an ever growing part of its capital in industry. In this way the

⁸⁸ Ibid., 11.

⁸⁹ Le Globe (1831), “Banque d’escompte”, 162. Quoted in Gilles Jacoud, *Political Economy and Industrialism – Banks in Saint-Simonian Economic Thought*. New York: Routledge, 2010, 22.

⁹⁰ Helen M. Davies, *Emile and Isaac Pereire – Bankers, Socialists and Sephardic Jews in nineteenth-century France*. Manchester: Manchester University Press, 2015, 48-50.

⁹¹ Gerschenkron, *Economic Backwardness*, 23.

⁹² Ibid., 12-13, also Davies, *Emile and Isaac Pereire*, epilogue.

⁹³ Gerschenkron, *Economic Backwardness*, 24.

bank becomes to an ever increasing degree an industrial capitalist.”⁹⁴ The frequent amalgamation of German banks, some of which were set up by the industries themselves, necessitated the rationalisation of the industries that were receiving credit and direction from the banks.⁹⁵ This resulted in a monopoly capitalism, which Bukharin called a “State Capitalist Trust”, dominated by a small number of state-sanctioned industrial-financial conglomerates. Such processes were to be mirrored half a century later in the zaibatsu system – Japan being also a latecomer in industrial development. Gerschenkron writes –

“It was the great eruptive effect of the Pereires that profoundly influenced the history of Continental banking”, and in Germany the Pereires’ banking model became dominant. [...] “The last three decades of the nineteenth century were marked by a rapid concentration movement in banking. [...] The momentum shown by the cartelisation movement of German industry cannot be fully explained, except as the natural result of the amalgamation of German banks. It was the mergers in the field of banking that kept placing banks in the positions of controlling competing enterprises. The banks refused to tolerate fratricidal struggles among their children. From the vantage point of centralised control, they were at all times quick to perceive profitable opportunities of cartelisation and amalgamation of industrial enterprises. In the process, the average size of plant kept growing, and at the same time the interests of the banks and their assistance were even more than before devoted to those branches of industry where cartelisation opportunities were rife. Germany thus had derived full advantages from being a relatively late arrival in the field of industrial development”.⁹⁶

Yet the Pereire brothers did not ultimately succeed; the Credit Mobilier went bust in 1867. France became a Republic in 1871, but constitutional issues until the late 1870s hindered the state from filling in the vacuum of industrial direction left by the Pereires. The result of the state’s re-assertion was repeated suggestions of railway nationalisation which came to nought, followed by the Plan Freycinet of 1878, in which the state collaborated with private railway companies to construct 8848 km

⁹⁴ Rudolf Hilferding, *Das Finanzkapital* (Vienna: Wiener Volksbuchhandlung, 1910), 283. Quoted in Bukharin, *Imperialism*, 71

⁹⁵ Gerschenkron, *Economic Backwardness*, 14-16.

⁹⁶ *Ibid.*, 15-16.

of railways for 3 billion Francs, plus 1 billion for 1,900km of canals and 500 million for ports, with the funds raised as public debt.⁹⁷ The *esprit* that was carried on from Saint-Simonianism was the use of railways to allow progressive urban culture to penetrate the feudalistic countryside – to force Republican, democratic ideology into royalist, rural France. This ideal – of the use of infrastructure for ideological ends – would continue to make its influence felt in Sergei Witte's industrialisation of Russia, Ernest von Koerber's infrastructural plans for Austria-Hungary, and in the developments of 1917 and beyond: Nishihara's State Socialist industrialisation of Japan and China, Lenin's Electrification of the Soviet Union, and Stalinist industrialisation. Nishihara's use of the Japanese Industrial Bank and the Banks of Korea and Taiwan to fund his industrial projects also harks back to the Pereires' financial socialism and reveals the capitalist nature of his State Socialism.

Friedrich List's Statist economics, also built upon Hamiltonianism, justifies state intervention in the economy for nationalist rather than socialist ends. List, moreover, pioneered "economic bloc" thinking with his advocacy for a Customs Union for "Mitteleuropa" that would encompass the Austro-Hungarian Empire and extend to the Middle East in the event of the Ottoman Empire's inevitable collapse; his failure to materialise an Anglo-German Economic Union contributed to his suicide in late 1846.⁹⁸ Saint-Simon and List were acquaintances of the economist Jean-Baptiste Say, who saw improving supply structure as key to resolving economic recession;⁹⁹ this law may explain the fundamental unities of the theories. List and Saint-Simon, moreover, converged on the idea that planning was essential to the rational deployment of capital, which was prerequisite to high growth; the state had to be empowered to carry out such functions. Ralf Dahrendorf describes Friedrich List's influence on German economic mentality as "plan rationality", as opposed to "market rationality", and writes that "the authoritarian and, more recently, the totalitarian state are based on an attitude of plan rationality."¹⁰⁰ The same could be

⁹⁷ François Caron, *Histoire des Chemin de Fers en France*. (History of the French Railways) Tome 1. Paris : Fayard, 1997, 476-479; and Jean Garrigues, *La République des hommes d'affaires (1870-1900)*. (The Republic of the Businessmen) Paris : Aubier, 1997, 154-162. Charles de Freycinet was Minister of Public Works in 1877 and became Prime Minister by 1879; he had been involved in top level engineering and mining administration since the 1850s, and it is impossible to imagine his innocence from the Pereires' activities.

⁹⁸ W. O. Henderson, *Friedrich List – Economist and Visionary, 1789-1846*. London : Frank Cass, 1983.88, 201.

⁹⁹ Steven Kates, *Say's Law and the Keynesian Revolution – How Macroeconomic Theory Lost its Way*. Cheltenham and Northampton, MA : Edward Elgar, 1998, 1-5.

¹⁰⁰ Dahrendorf, Ralf. *Society and Democracy in Germany*. New York and London : W. W. Norton & Co., 1979, 55.

said of Saint-Simonianism, whose *esprit* can be summed up as “Could not Progress deputize for God?”.¹⁰¹ Such “plan rationality”, a legacy of the Enlightenment, was as Gerschenkron argued, typical of the mentality of economically backward countries under internal and international pressure to catch up. In this context the now vilified notions of “plan rationality” and the “state” were in fact thought of as empowering notions. Whilst Henri de Saint-Simon, the socialist, emphasised the moral objectives of capital and growth, List saw nationalism and industrialisation as tools to extricate the German people from social backwardness; it is here that the “State Capitalist Trust” acquires the significance of being the motor of a “catch-up developmental” strategy that promises material liberty. The emergence of Phase Two State Socialism, i.e. State Monopoly Capitalism serves as the apex of this process.

¹⁰¹ Ernest Gellner, *Encounters with Nationalism*. Oxford : Blackwell Publishers, 1994, 1

2.2 State Socialism – Phase One

2.2.1 Bismarckian State Socialism and its influence on Japan

During the late 19th–early 20th century, German State Socialism influenced Japan on two levels. The first of these was Social Welfarist, involving discussions on and attempts to import social and labour policies which Bismarck had implemented, often on the advice of the Social Policy Association, or *Verein für Socialpolitik*. On the second level were Bismarckian policies essentially State Capitalist in nature, such as monopolies on commodities but most notably, state ownership of the railways and the postal service. The Meiji government was hesitant, if not loath, to implement the first category of Social Welfarist policies, but was much more enthusiastic with the lucrative second category of State Capitalist policies. As we shall see later, this bias also came to affect Chinese perceptions of State Socialism, which during the early years was heavily geared towards emulating the State Capitalist rather than Social Welfarist aspects of Bismarckian State Socialist policies.

Japanese social reformers and “enlightened bureaucrats” during the late-Meiji and Taishō eras were under the immense influence of the German Social Policy Association, set up in 1873 by Gustav von Schmoller and Adolph Wagner. These social reformers were alternatively known as the “Younger Historical School” of economists. They also had links to the Institutional School of economic thought in America; this is due first to their common admiration for Hamiltonian industrial policy, and to the fact that important institutionalists, for example Richard T. Ely, had studied in Germany under leading historicists such as Karl Knies.¹⁰² The social policy school, whose “purpose was to advocate state intervention in the economy in order to ease class conflicts through social welfare legislation”,¹⁰³ promoted both Listianism and State Socialism. The organisation prospered in conditions that were parallel to those in Japan, namely having “close interaction between the reformist bureaucrats and academic social scientists”, and “became the most influential in propagating state-led social reform”, with Schmoller referring to Lorenz von Stein’s

¹⁰² Kenneth Pyle, “Advantages of Followership: German Economics and Japanese Bureaucrats, 1890-1925”. In *The Journal of Japanese Studies*, Vol. 1, No. 1 (Autumn, 1974), 137. Ely also studied under the Swiss jurist Johann Caspar Bluntschli – whose organic theory of the state became a major influence on turn-of-the-century Japanese and Chinese thinkers.

¹⁰³ *Ibid.*, 133.

concept of ‘monarchy of social reform.’¹⁰⁴ These establishmentarian credentials earned them the ridicule of liberals and proletarian socialist activists, and they were referred to as *Kathedersozialisten* (socialists in the academic chair).

By the end of the decade, the academic socialists were having their heyday. In 1879 Otto von Bismarck “proposed to remodel Germany’s economic system”¹⁰⁵ and made a turn in the protectionist and State Socialist direction. This followed a long depression after the slump of 1872-3. This in 1878 culminated in the resignation of the Minister of Finance, Rudolf von Delbrück, a proponent of laissez-faire and low tariffs. The “high-water mark of German State Socialism”¹⁰⁶ was reached with the passage of the Sickness Insurance Law of 1883, the Accident Insurance Laws of 1884-85, and the Old Age Insurance Law of 1889, in addition to Prussian legislation on the insurance of sickness dating from 1854. William H. Dawson’s 1891 classic work, *Bismarck and State Socialism* contains a particularly illuminating passage¹⁰⁷ where Bismarck reveals how his realpolitik had arrived at an accommodation with socialism, to the extent of openly admitting the socialist nature of his policies; this is despite the fact that he himself had passed anti-Socialist laws in 1878 and that his brand of socialism was under fire from both left and right.

The inspiration for Bismarck’s State Socialist policies had come much earlier, from his secret meetings in 1863 with the Jewish State Socialist organiser Ferdinand Lassalle, who had probably been introduced to Saint-Simonianism during his stay in Paris in 1845 by a fellow Jew, the German poet Heinrich Heine, to whom Lassalle

¹⁰⁴ Lehmbruch, Gerhard. “The Institutional Embedding of Market Economies : The German “Model” and its Impact on Japan”. In *The Origins of Nonliberal Capitalism – Germany and Japan in Comparison*, Wolfgang Streeck and Kōzō Yamamura, eds. Ithaca and London : Cornell University Press, 2001, 55.

¹⁰⁵ William Harbutt Dawson, *Bismarck and State Socialism*. London : Swan Sonnenschein & Co., 1891. 37.

¹⁰⁶ *Ibid.*, 109.

¹⁰⁷ “When it was objected in the Reichstag in 1882 that his monopoly projects savoured of Socialism, he did not deny the imputation, but welcomed it, observing : ‘Many measures which we have adopted to the great blessing of the country are Socialistic, and the State will have to accustom itself to a little more Socialism yet. [...] the Stein-Hardenberg legislation respecting the emancipation of the peasantry. That was Socialism, to take land from one person and give it to another – a much stronger form of Socialism than a monopoly. But I am glad that this Socialism was adopted, for we have as a consequence secured a free and very well-to-do peasantry, and I hope that we shall in time do something of the sort for the labouring classes. [...] Socialistic, too, is every expropriation in favour of railways; Socialistic to the utmost extent is the aggregation of estates [...] Socialistic is expropriation under the Water Legislation, on account of irrigation, etc., where a man’s land is taken away from him because another can farm it better; Socialistic is our entire poor relief, compulsory school attendance, compulsory construction of roads [...] That is all Socialistic, and I could extend the register further; but if you believe that you can frighten any one or call up spectres with the word ‘Socialism’, you take a standpoint which I abandoned long ago, and the abandonment of which is absolutely necessary for our entire imperial legislation.” (*Ibid.*, 63-64.)

was close.¹⁰⁸ Lassalle was also under the influence of Karl Rodbertus' theory that unless the state steps in, the workers' share of national income would tend to decrease – the “iron law of wages”, so to speak. Lassalle tried to persuade Bismarck to take up ideas such as universal suffrage and “co-operative production” on such lines as those advocated by Lassalle's projected “Universal German Working-Men's Association”.¹⁰⁹ Lassalle clashed with Karl Marx in his belief that the state “will achieve for each one of us what none of us could achieve for himself.”¹¹⁰ As if to presage Japanese State Socialists like Kita Ikki, Bismarck described Lassalle as “by no means a Republican : he had very decided national and monarchical sympathies, and the idea which he strove to realise was the German Empire, and therein we had a point of contact.”¹¹¹ By the early 1880s “Bismarck even has been called a disciple of Lassalle.”¹¹² Yet Lassalle's premature death in a pistol duel in 1864 put paid to the task of converting Bismarck to the State Socialist cause, until Schmoller and his Social Policy School came to the fore in 1873, coinciding with the advent of economic difficulties in Germany. Just as Nishihara would justify his State Socialism with Neo-Confucian rhetoric, Bismarck would phrase his reforms in Christian terms; the statement that accompanied the Accident Insurance Bill of 8th March, 1881¹¹³ reveals that Bismarck meant State Socialism as an innovation to the very idea of the State, and that beneath State Socialism lies a system of Christian ethical motives, one that would be taken up by the German Christian Democratic movement later on.

The introduction of protectionist economic nationalism into Japan and the formation of the idea of an industrial state there was a relatively early affair. Traces

¹⁰⁸ William H. Dawson, *German Socialism and Ferdinand Lassalle – A Biographical History of German Socialistic Movements during this Century*. London : Swan Sonnenschein & Co, 1890. 116.

¹⁰⁹ Dawson, *Bismarck and State Socialism*, 30. Lassalle's “approach to political organization was totalitarian”, described Gordon Mork. “Compared with Lassalle, even Karl Marx might appear to be a ‘liberal democrat’.” Mork, “Review”, 610.

¹¹⁰ Hal Draper, “Lassalle and State Socialism”, in “The Two Souls of Socialism”. In *New Politics* 5 (1) (Winter 1966).

¹¹¹ Dawson, *Ferdinand Lassalle*, 169.

¹¹² Lewis J. Huff, “Ferdinand Lassalle”. In *Political Science Quarterly* 2 (3) (Sept 1887), 414.

¹¹³ “That the State [...] should interest itself to a greater degree than hitherto in those of its members who need assistance, is not only a duty of humanity and Christianity – by which State institutions should be permeated – but a duty of State-preserving policy, whose aim should be to cultivate the conception [...] amongst the non-propertied classes, which form at once the most numerous and the least instructed part of the population – that the State is not merely a necessary but a beneficent institution. These classes must [...] be led to regard the State not as an institution contrived for the protection of the better classes of society, but as one serving their own needs and interests. The apprehension that a Socialistic element might be introduced into legislation if this end were followed should not check us. So far as that may be the case it will not be an innovation but the further development of the modern State idea, the result of Christian ethics, according to which the State should discharge [...] the positive duty of promoting the welfare of all its members, especially those who are weak and in need of help...” (Dawson, *Bismarck and State Socialism*, 111.)

of influences from Friedrich List's works are apparent in the *Memorandum on Industrial Development* written in 1874 by Ōkubo Toshimichi, [大久保利通] in which he argued, like List, that the government had a responsibility to direct and foster industrial development. Laissez faire and free trade was unsuitable for Japan, just as it was inappropriate for Britain during the early-modern period. Only much later, with a stronger industrial base, did free-trade work in Britain's favour - as List and Okubo both noted.¹¹⁴ A *Memorandum on Protectionist Tariffs* [保護税説] written by Wakayama Norikazu [若山儀一] in 1881 employed similar examples to those found in List's *National System of Political Economy*, where he lamented that Portugal's mistake of lowering tariffs for woollen products from Britain in exchange for lower British tariffs for Portuguese wine, resulted in the ruin of the Portuguese industrial economy.¹¹⁵ Yet the works of List were not formally introduced to a Japanese audience until 1889, when *National System of Political Economy* was translated by Ōshima Sadamasu.¹¹⁶ [大島貞益] The editor of this translation, Tomita Tetsunosuke, [富田鐵之助] was a former Bank of Japan director who had been purged from office by the Finance Minister (and later Prime Minister) Matsukata Masayoshi [松方正義] for his statist economic views and his insistence on creating an industrial investment bank. Tomita and Ōshima fought back by establishing the National Association of Economics (NAE) [國家經濟會] in 1890, which published bi-monthly reports and made the works of List the theoretical cornerstone of the organisation. In 1892 Ōshima resigned due to ill-health,¹¹⁷ and the editorship of the NAE reports was taken over by another founding member, Kōmuchi Tomotsune [神鞭知常] – a former translation officer in the Ministry of Finance and later mentor to Nishihara. The influences of List's theories would abound in Nishihara's works.

By the 1900s, the need for governmental intervention in Japan had moved from a simple matter of providing protection and encouragement to the industries,

¹¹⁴ Okubo Toshimichi, "Shokusan Kōgyō ni kansuru Kengisho" [殖産興業に関する建議書] summarised in Byron K. Marshall, *Capitalism and Nationalism in Prewar Japan – The Ideology of the Business Elite*. Stanford : Stanford University Press, 1967. 16-17; Iwata, Masakazu. Okubo Toshimichi – The Bismarck of Japan. Berkeley and Los Angeles : University of California Press, 1964. 236-238.

¹¹⁵ MITI, [通商産業省] ed. *Shōkō Seisaku Shi* (History of Commercial and Industrial Policy), vol. 5 [商工政策史 : 巻五] Tōkyō : Shōkō Seisaku Shi Kankōkai [商工政策史刊行會] 1965. 203-204.

¹¹⁶ Tessa Morris-Suzuki, *A History of Japanese Economic Thought*. London and New York : Routledge, 1989. 60-62.

¹¹⁷ Honjo, Eijiro. [本庄榮治郎] "Kokka Keizai Kai to Ōshima Sadamasu" ("The National Association of Economics and Oshima Sadamasu"). [國家經濟會と大島貞益] In *Economic Miscellanea*, [經濟論叢] 1942, 55 (4), 491.

to one of redressing the maladies of capitalist industrialisation itself. “In the forty-odd years between the death of Friedrich List and the popularization of his ideas in Japan, the theories of the historical school within Germany itself had undergone considerable development.”¹¹⁸ Japanese economists again followed the German example, and the Association for the Study of Social Policy (ASSP) [社會政策學會] was “established in 1896 and modelled on the German *Verein für Sozialpolitik*.”¹¹⁹ Within the ASSP, the divisions between right-wing and left-wing economists began to widen. The former, which included two of the more ‘enlightened’ of late-Meiji era bureaucrats, Soeda Ju’ichi [添田壽一] and Tajiri Inajirō, [田尻稻次郎] advocated gradual reform from the point of view of the administration; having accepted the existing political system, they held little objection to the existence of the monarchy. Soeda had been a member of the NAE – thus demonstrating in a sense the continuity of statist economic policy development between the NAE and ASSP; Soeda also became President of the Industrial Bank of Japan in the early 1910s. The left-wing of the ASSP, which included Fukuda Tokuzō [福田徳三] and Horie Ki’ichi, [堀江歸一] viewed matters from the labourers’ perspective and focused their criticisms on the government’s inability to intervene. The consensus amongst them was that –

“The reforms [...] were intended not to overthrow, but rather to preserve the existing economic and political system by domesticating the potentially dangerous forces of organized labour and creating a sense of common purpose amongst labour and management. [...] Like the Confucian scholars of Tokugawa Japan, the *Kathedersozialisten* saw economics as inseparably interwoven with moral and political issues, and above all as embodying the duty of the government to show concern for the social welfare of its subjects.”¹²⁰

It is hardly surprising therefore that the NAE and the ASSP both promoted forms of State Socialism, an explanation of which first appeared on NAE Reports no. 19 and

¹¹⁸ Morris-Suzuki, *Economic Thought*, 62.

¹¹⁹ “...from 1907 to 1924 it organised major annual conferences, each focusing on a topic of particular interest to members, and often including papers by the leading economists of the late Meiji and early Taisho Japan. The list of conference titles, therefore, provides a very good indication both of the major concerns of the social policy school and of the principle topics of contemporary economic and social debate. The first conference, held at Tōkyō University in December 1907, focused on factory legislation and labour problems”, and later conferences covered “tariff question and social policy (1908), the problem of migration (1909), labour disputes (1913), the problems of government-run enterprises (1916), small-scale industry (1917) [and] women workers in Japan (1918)”. (Ibid., 64.)

¹²⁰ Ibid., 63.

20 published in 1892 and edited by Kōmuchī Tomotsune, who added in the preface to the article that “the increased tendency towards inequality is the result of the doctrine of laissez-faire.”¹²¹ The articles were a translation of Chapter One of William H. Dawson’s *Bismarck and State Socialism*,¹²² and since they were likely passed on to Nishihara Kamezō by Kōmuchī, deserves to be quoted at length here.

The article gave particular attention to the views of Adolph Wagner, one of the economists of the ‘Younger Historical School’ whom by then was well known for his advocacy of State Socialism. The article acknowledged that, by the 1890s, “the doctrines of State Socialism are now far less controverted in Germany than a few years ago”,¹²³ if not having achieved semi-official status as the national ideology. “State Socialism is the soul which pervades the entire imperial legislation of today. It has already become an article of faith, and is now a constituent of the mental atmosphere in which the present lives and breathes.”¹²⁴ The article explains the differences between State Socialism and other variants of the Socialist movement, whereby “Wagner’s position differs from that of the Socialists in that they would abolish social inequalities, while he would only seek to diminish them. He makes no concealment of the fact that he proposes to take from the rich for the benefit of the poor. The rich might complain of this, but it would not be with reason.”¹²⁵ State Socialism opposes the concept of class struggle. Gustav von Schmoller, for example, wrote that the purpose of State Socialism was “the re-establishment of a friendly relationship between social classes, the removal or modification of injustice, a nearer approach to the principle of distributive justice, with the introduction of a social legislation which promotes progress and guarantees the moral and material elevation of the lower and middle classes.”¹²⁶ State Socialism makes the state the focal point of all action, although Dawson quotes Wagner as saying that a clear demarcation of state responsibilities is impossible, “The jurisdiction of government is a matter not of principle but of expediency.”¹²⁷ Adolph Wagner believes that –

¹²¹ “Kokka Shakai Shugi” (“State Socialism”) [國家社會主義], in *Report of the National Association of Economics*, [國家經濟會報告] 19, Sept 1892, 49-62; *Report of the National Association of Economics* 20, Nov 1892, 31-39.

¹²² The full translation of Dawson’s work by Mitsuyoshi Motojiro [光吉元次郎] came out in 1893, as *Kokka Shakai Sei* [國家社會制] published by Tetsugaku Shoin. [哲學書院]

¹²³ Dawson, *State Socialism*, 13.

¹²⁴ *Ibid.*, 13.

¹²⁵ *Ibid.*, 7.

¹²⁶ *Ibid.*, 3.

¹²⁷ *Ibid.*, 5-6.

“While individualism restricts the functions of the State as much as possible, Socialism enlarges them; the Individualist would do everything without the state, the Socialist would do everything with it. State Socialism is the mean between these directions of thought; in it’s the two extremes meet. [...] Social interests can only be properly safeguarded when the State directly concerns itself with them. The aim must, therefore, be to widen the economic jurisdiction of the State. [...] The non-intervention principle must be abandoned, since it has only led to greater and ever greater class and personal inequalities, and therefore to growing social disorganisation and discontent.”¹²⁸

As such, economic intervention by the state becomes a component of its sovereignty. “No department of economic activity should on principle be closed to the State; whether it should or not participate, side by side with private enterprise, is a matter of expediency and public interest. Where the State cannot with advantage undertake economic functions, they may be suited to public bodies, the principle of collectivism being still asserted.”¹²⁹ Wagner supports the conversion of private enterprises, particularly mines and smelting works, into worker-capitalist industrial partnerships, or “co-operative concerns”. “Private possession should not be excluded, but State and collective possession is both allowable and desirable”.¹³⁰ Wagner thinks that state should keep a monopoly on items such as brandy and tobacco, that railways, coal mines, and urban property should be nationalised, and that the state should be responsible for public insurance, “not only to life and person (accident, death, old age, etc.), but to movable property.”¹³¹ As we shall see, Rathenau and Nishihara would develop on Wagner’s view on taxation, believing that duties on daily commodities should be “kept within moderate bounds” whilst “the luxuries of the rich may be taxed liberally. As regards direct taxation, the labourer’s income should, as far as possible, be exempted, and the well-to-do classes should pay proportionately more. [...] Taxation should also be progressive, whatever the source of income.” This is in addition to heavily taxing “unearned increment [...] and

¹²⁸ Ibid., 2, 4.

¹²⁹ Ibid., 4.

¹³⁰ Ibid., 9-10.

¹³¹ Ibid., 12.

to make income derived from Stock Exchange speculation and gambling pay a high tribute to the public treasury.”¹³²

Wagner does not oppose labour unionism, but only approves of it within severe limits. He writes that “The State has no right, and no interest, to discourage labour combinations which restrict themselves to economic purposes; all it can fairly do is to prevent and punish excess, violence, and menace. [...] Unaided the working classes will never achieve their emancipation from capitalistic fetters.”¹³³ Yet labour unionism is best avoided, and “Wagner favours co-operation in distribution on the basis of the English co-operative movement, and also, to some extent, in production.” Wagner quotes Ferdinand Lassalle, one of the first advocates of State Socialism and of the need to build workers’ cooperatives, as one of his sources of “Socialistic stimulus”, and “he goes as far as to say that Lassalle’s proposal of State credit might with advantage be adopted.”¹³⁴ Nishihara would echo this view of Lassalle and Wagner’s, that production cooperatives be made the basis of a new economy.

In Japan the earliest advocate of State Socialism was Shiba Teikichi, [斯波貞吉] who would be an acquaintance of Nishihara’s in the late 1910s. His 1892 work *On National Society* [國家的社會論] made reference to both Dawson and Wagner’s works.¹³⁵ Shiba admired the strength of the socialist movement in Britain, noting that in London alone there existed more than ninety socialist gathering places, but soberly acknowledged that the priorities of Japan was the strengthening of the army and the rectification of the Unequal Treaties – this was well before Japan’s victory in the war of 1895. Shiba observed that the solid basis of a prosperous economy is indispensable to diplomatic success in rectifying the treaties, which he argues is something that cannot be achieved with a starving population and in the absence of policies to boost productivity.¹³⁶ State Socialism, he argued, would greatly aid Japan’s “progress in production”, “national development” and “the prosperity of our nation”.¹³⁷ Shiba’s general line of argument was that if the state did not take initiative to implement social policy, it would be too late for the state to regain such initiative when more radical strands of socialism and anarchism take root in Japan.

¹³² Ibid., 9.

¹³³ Ibid., 6.

¹³⁴ Ibid., 8.

¹³⁵ Shiba, Teikichi. [斯波貞吉] *Kokka teki Shakairon* (A National Theory of Society). [國家的社會論] Tokyo : Fuzanbo, [富山房] 1892, 4.

¹³⁶ Ibid., 108.

¹³⁷ Kada, *Kairon*, 216-219.

Shiba proposes the establishment of Poor Workhouses, [救貧工作場] modelled upon those set up under the New Poor Laws in Britain.

Shiba argues for extensive nationalisation of sectors such as railways, mines, salt, tobacco, the printing industry and the manufacturing of munitions, with Bismarck as an example of effective state ownership of railways – important also from a national defence point of view – and notes the usefulness to the state of a lucrative tobacco monopoly which produced 40 million marks per annum.¹³⁸ Shiba moreover advocates on Bismarckian lines for factory legislation on items including maximum working hours and holidays, in addition to workers' insurance schemes, with the rationale being that, since labour is an essential factor in production, a rise in the social status of labourers given enhanced state protection will eliminate “unproductive sentiments” amongst the labourers and contribute to a rise of productivity.¹³⁹ Shiba expresses a Saint-Simonian disgust towards the idle kept afloat by inherited wealth and argues that they should be subject to heavy taxes.¹⁴⁰ He argues also for the state ownership of land, which would be one way of depriving the idle of their inherited wealth. His inspiration was the American progressive economist Henry George, who became an important influence on Chinese revolutionaries, notably Sun Yat-sen.¹⁴¹

Another possible inspiration for Nishihara's Neo-Confucian State Socialism was the retro-reformist State Socialism of Yamaji Aizan. [山路愛山] The son of the last Chief Astronomist [天文方] of the Bakufu regime, Yamaji became a Canadian Methodist missionary in the 1880s and befriended the socialist-anarchist campaigner Sakai Toshihiko. [堺利彦] In 1905 Yamaji started the State Socialist Party, [國家社會黨] in whose 1906 manifesto *Humble Observations on Socialism*, [社會主義管見] he painstakingly linked every State Socialist advocacy of his to a historical precedent in Japan or China – some as ancient as the Nara period in the 8th century – and declared that his State Socialism was an independent ideology rooted in Japanese tradition, in diametrical opposition to Marxism which was a “translated ideology”. Unlike Marxism which characterises the state as bourgeois property,

¹³⁸ Kada, Tetsuji [加田哲二] *Ishin Igo no Shakai Keizai Shisō Gairon* (An Overview of Socio-Economic Thought after the Restoration.) [維新以後の社會經濟思想概論] Tōkyō : Japan Review, [日本評論社] 1934, 80-87.

¹³⁹ Ibid., 74-80.

¹⁴⁰ Ibid., 107.

¹⁴¹ Ibid., 57-59.

Yamaji argues that the emperor would stand with the poor against the rich.¹⁴² The state is described in organic terms, where Japan is one large family, a “Common Living Unit”, [共同生活體]¹⁴³ with the emperor as the stem and the government its leaves. Associated to the Yamaji circle was Yano Ryūkei, [矢野龍溪] an ex-bureaucrat who published in 1902 a utopian novel entitled *The New Society*. [新社會]

In bureaucratic circles, State Socialist forces congregated in February 1899 in the National Constitution Party, [國憲黨] later to become the Empire Party. [帝國黨] This party was one of two successor parties to the what had become of the “Bureaucratic Party”, [吏黨] the National Association. [國民協會] The other successor party was Itō Hirobumi’s [伊藤博文] Seiyukai. [政友會] The National Constitution Party was led by a group of senior government officials who had had experience in economic administration.¹⁴⁴ This party, and its successor Empire Party made it their aim the propagation of State Socialism and in its manifesto called for the “gradual nationalization” of transport, protection for labour, relief for the poor, and encouragement to agriculture, commerce and industry as well as developmental planning.¹⁴⁵ The party achieved little in parliament however and was absorbed into the Daitō Kurabu, [大同俱樂部] later the Central Club. [中央俱樂部] This in 1913 joined Katsura Tarō’s new party, the Rikken Dōshikai, [立憲同志會] which the English newspaper, *The Japan Times*, thought that some members of the public would find State Socialist, even “too progressive”.¹⁴⁶

Prime Minister Katsura Tarō [桂太郎] had earned his State Socialist credentials during the 1906-7 railway nationalisation policy. This had been preceded by the establishment of monopolies over the postal service and telecommunications, and in 1896 tobacco was subjected to a monopoly. Colonial policies in Taiwan were categorised by the *Asahi Shimbun*¹⁴⁷ and the English *Japan Chronicle* as State Socialist. The latter, in describing a tariff policy of positive discrimination to

¹⁴² Yamaji, Aizan. [山路愛山] *Shakai Shugi Kanken* (Humble Observations on Socialism) [社會主義管見] Tokyo : Kaneo bun’endō, [金尾文淵堂] 1906. 143, 157-160.

¹⁴³ Ibid., 74-79.

¹⁴⁴ The party’s leaders as listed by the *Yomiuri Shimbun* included Kaneko Kentarō, [金子堅太郎] one of the drafters of the Meiji Constitution and former Minister of Agriculture and Commerce; Saitō Shūichirō, [齋藤修一郎] diplomat, industrialist and former Vice Minister of Agriculture and Commerce; and Arakawa Kunizō, [荒川邦藏] former Prefect of the Fukui Prefecture and later head of the Prefectures Bureau of the Interior Ministry. [内務省縣治局長]

¹⁴⁵ *Yomiuri Shimbun*, 1899-02-04, p.1; *Asahi Shimbun*, 1900-01-25.

¹⁴⁶ “The Japanese Press from Day to Day”, *The Japan Times*, 1913-02-09.

¹⁴⁷ “Seifu Senbai no Ryūkō” (The Proliferation of Government Monopolies), *Asahi Shimbun*, 1905-11-18.

encourage Taiwanese sugar planters to the detriment of producers from the Metropole, writes that “Japan is adopting a form of bureaucratic State Socialism that at the same time encourages the formation of a trust or a monopoly system to the benefit of a group of individual capitalists. Nowhere is the effect of this system more evident than in Formosa [...] The object of the Government has been avowedly to encourage an ‘infant industry’”¹⁴⁸ – a concept which has clear Listian roots.

During the 1880s-90s “railway mania” took hold of Japan and many companies were established without due consideration of their viability.¹⁴⁹ Railway nationalization was mooted during the two financial crises of 1890 and 1898 as a form of government relief, but it wouldn’t be thought of as part of a developmental policy, until in 1901 the Minister of Posts Den Kenjirō [田健治郎] drafted a memorandum which made reference to Bismarck’s railway nationalization in Prussia, implemented after 1879. In a rather optimistic tone and totally neglecting Bismarck’s earlier lack of success at convincing the German Diet to nationalize all of the country’s railway network, Den credited the massive increase of German productivity, which has surpassed that of Britain and France, to state ownership of the railways.¹⁵⁰ The proposals were revived in the aftermath of the Russo-Japanese war, when the army and the Ministry of Posts rejected a plan for US investment in the Korean and Manchurian railways, preferring state control. In preparation for works to widen the gauge of the Japanese railways from 3ft 6in to 4ft 8.5in as found on the continental network, Katsura’s government successfully passed legislation to purchase compulsorily 17 private railway companies, increasing state-owned mileage from 1718 to 4706 miles – from 37% to 91% - and reducing privately-owned mileage from 2885 to a mere 496 miles, or from 63% down to 9%.¹⁵¹

The Asahi Shimbun, in an editorial consistent with its usual tone against government intervention in the economy, called Katsura’s policy State Socialist. It said that Japan did not possess the financial means to carry out such a policy, unlike Germany which benefitted from the large war indemnity paid by France.¹⁵² Chinese

¹⁴⁸ “The Government and Formosa Sugar”, *The Japan Chronicle*, 1910-10-13.

¹⁴⁹ Ōshima Fujitaro. [大島藤太郎] *Kokuyū Tetsudo no Shi teki Hatten*. (The Historical Development of State Owned Railways) [國有鐵道の史的發展] Tokyo : Itō Shoten, 1949, 30.

¹⁵⁰ Kobayashi Hideo, [小林道彦] *Taishō Seihen – Kokka Keiei Kōsō no Funretsu*. (The Taishō Coup – A Split in the National Developmental Vision) [大正政變 – 國家經營構想の分裂] Tokyo : Chikura Shobō, 2015, 206-213,

¹⁵¹ Ōshima, *Tetsudo*, 41.

¹⁵² “Tetsu Koku Riyūsho wo Yonde”, (Reading the Explanatory Note to the Railway Nationalisation Policy) [鐵國理由書を讀て] *Asahi Shimbun*, 1906-03-06.

constitutionalists and revolutionaries in Japan also quoted from the Japanese press and referred to the railway nationalization policy as State Socialist¹⁵³ – proving that this perception was at the time widespread. Japan seemed for many to be one of the most interventionist governments around the world, and it was this which would set an example for China. *The Japan Times* wrote that “All things considered there is probably in this country about as much State socialism as there is in Germany.”¹⁵⁴ Hamilton Holt, editor of *The Independent* in New York, wrote the following editorial after spending three months in Japan in early 1912, and correctly characterised the Japanese government’s State Socialist drive, under the so-called “Katsura-Saionji System [桂園體制] where Katsura Tarō and Saionji Kinmochi [西園寺公望] were alternately prime minister in 1901-1913, as being, in essence, State Capitalist –

“The leadership of the Japanese government is nowhere better exemplified than in the progressive steps it has taken along the lines of State Socialism. It owns and operates the post office, telephones, telegraphs, wireless, gas, electricity, water, railroads and the tobacco, salt and camphor monopolies. It subsidizes many businesses such as shipping, banking, etc. Indeed, the ramifications of the Government are to be seen everywhere. Japan has gone into these ‘socialistic’ measures, however, not from any conversion to the tenets of Socialism, but because she has wanted to make money. A good part of the national income comes from the operation of public utilities and monopolies. Nevertheless, Japan today approximates more toward what is known as State Socialism than any other nation in existence.”¹⁵⁵

¹⁵³ Liang Ch’i-ch’ao, “Shehui Geming Guowei Jinri Zhongguo suo Biyao hu” (Is Social Revolution Necessary in China Today?) [社會革命果為今日中國所必要乎] in *Xinhai Geming Qian Shinianjian Shilun Xuanji*. (A Compendium of Political Opinion Pieces during the Decade before the 1911 Revolution) [辛亥革命前十年間時論選集] Vol. 2 Lower. Beijing : Joint Publishing, 1960, 357; Feng Tzu-yu, [馮自由] “Minsheng Zhuyi yu Zhongguo Zhengzhi Geming zhi Qiantu” (The Doctrine of Popular Livelihood and the Future Course of Political Revolution in China) [民生主義與中國政治革命之前途] in *ibid*, 425.

¹⁵⁴ “Too Much Government”, *The Japan Times*, 1911-05-07. Incidentally, the ASSP was not totally in support of this form of State Capitalism. Horie Ki’ichi from the Leftwing of the ASSP actually encouraged the privatisation of these government-run industries and monopolies in a speech made at the ASSP annual conference in 1916. In the midst of the First World War it is understandable that his suggestion was not seriously considered. See Taiyoji, Junichi. [大陽寺順一] “Introduction”. In Kangyō to Hōgō Kaisha Mondai (The Problem of Government Industries and Protected Corporations). [官業及保護會社問題] Shakai Seisaku Gakkai Shiryo Shūsei (Association for the Study of Social Policy Historical Materials Compilation), Vol. 10 [社会政策学会史料集成第 10 卷] Tōkyō : Ochanomizu Shobo, [御茶の水書房] 1977. 1-6.

¹⁵⁵ “Japan Today”, *The Japan Times*, 1912-05-26.

2.2.2 *State Socialism and State Capitalism in China, 1893-1918*

In the early 1860s modern industry was non-existent in China; fifty years later¹⁵⁶ the country was partner to Nishihara's industrialisation proposals and was on its way to becoming a developmental-authoritarian state. Governmental attitudes to industry took an about turn during the two decades from 1895-1915; this had much to do with Japanese influences, and indeed many developments took place in Japan. Repeated attempts were made up to 1918 at establishing State Capitalism in China, first by the Manchu regime, and then by the Republican government; the official ideology went from protectionism and "import-substitution" to a more general notion of "State Socialism", which meant Developmentalism to its advocates. At its height in early 1917, China was not only conducting nationalisation, but had taken the first steps towards social legislation. The Chinese state, which had begun to experiment with methods of controlling the industrialisation process, had every reason to be a willing, and able partner, to Nishihara's industrial proposals.

China's progressive elite, during the years 1895-1915, were in general pro-Japanese and pan-Asian in addition to harbouring nationalistic sentiments. Instead of revanchism, defeat in 1895 sparked off curiosity and admiration for Japan. Pan-Asian political cooperation was seen as a necessary component of, or a logical extension to, Chinese Statism. A prominent example of such thinking can be found in the telegraph and shipping administrator Cheng Kuan-ying, [鄭觀應] himself a comprador for the British firm Dent & Co. He became an important influence on the 1898 Reform Movement and is universally credited by Chinese historians as a nationalist economist who theorised, in 1893, a policy of commercial warfare in his

¹⁵⁶ Albert Feuerwerker divides these years into four periods – 1. 1862-1877 – a period of "military industry" where efforts were concentrated on building modern arsenals and naval dockyards; 2. 1878-1894 – a period of kuan-tu shang-pan, [官督商辦] or "Mandarin-supervised and Merchant-managed" industry, "characterised by official sponsorship of [...] cotton spinning and weaving and of mining", in addition to the establishment of the China Merchants' Steam Navigation Company, which enjoyed periods of relative success in its shipping business; 3. 1895-1902 – "foreign industry established itself firmly in the treaty ports on the basis of the 'most-favoured nation' provision", according to which all powers now enjoyed "the right to engage in manufacturing granted to the Japanese" in the Treaty of Shimonoseki; and 4. 1903-1911, "a period of intense foreign economic rivalry in China, active government promotion of industry, and greater response from the populace." (Albert Feuerwerker, *China's Early Industrialisation : Sheng Hsuan-huai (1844-1916) and Mandarin Enterprise*. Cambridge, Massachusetts : Harvard University Press, 1958, 9.)

book *Words of Caution for Prosperous Times*. [盛世危言] Cheng's arguments, which have been compared to those of Friedrich List,¹⁵⁷ were that –

“direct government aid and support of Chinese commerce and industry was a vital necessity. He defined his position as advocating ‘the use of official authority [權] to compensate for the weakness of the merchants.’ Rather than official interference in individual enterprises, Cheng called for the government to establish technical schools, invite foreign experts to come to China, grant patent rights, reduce the export tariff and increase the import tariff, and establish regional chambers of commerce. But as most important he stressed the need of government support for the development of manufacturing [...] by lending official funds to new enterprises and by reducing the burden of *likin* and other taxation [...] To provide a base for these consumption-goods industries, heavy industry such as coal, copper and iron mining was to be fostered.”.¹⁵⁸

What is not usually mentioned is that Cheng Kuan-ying, by mid-1898, was a founding executive of the Shanghai branch of the Asia Society, [亞細亞協會] and even penned its charter on 14th May.¹⁵⁹ It was decided that Cheng would be Vice-President of the association, whilst the Japanese Consul in Shanghai, Odagiri Masunosuke [小田切萬壽之助] would be its President.¹⁶⁰ These events took place under the backdrop of Germany's seizure of Shantung in November 1897 and fears of Russian encroachment, all of which provided Japan a brilliant opportunity to regain hearts and minds in China.¹⁶¹ The Shanghai Asia Society was federated to its Tōkyō

¹⁵⁷ Xian, Wen. [錢文] *Wanqing Zhongshang Sixiang Yanjiu* (A Study of Mercantilist Thought by the End of the Ch'ing Dynasty) [晚清重商思想研究] PhD Dissertation, Northwestern University, [西北大學] 2008. 188-204

¹⁵⁸ Feuerwerker, *China's Early Industrialisation*, 38.

¹⁵⁹ Hazama, Naoki. *Riben Zaoqi de Yazhou Zhuyi*. (Early Japanese Pan-Asianism) [日本早期的亞洲主義] Zhang Wen, [張雯] trans. Beijing: Peking University Press, 2017. 72.

¹⁶⁰ Ibid., 84, note 14. Cheng wrote a song in praise of Odagiri, where he said in the preface that Odagiri convinced him that “old grudges should be cast aside”; [勿念宿嫌] in the song Cheng wrote that “Should China be divided the Japanese Isles would also be in danger [...] In the pursuit of a good policy to preserve prosperity, there is no other method but to form an alliance. Britain and America should urgently join forces with Japan and China, and discard their differences to unite and resist Russia.” [中土若分日島危... 欲籌良策保升平，除卻聯盟無他術。英美急宜合日中，同心拒俄毋分別] In response Odagiri wrote that “the Union of the two states will bring peace to ten thousand nations, and everything will be well if the hundreds of reforms succeed.” [兩國同盟萬邦和，百政維新庶事康] (Xia, Dongyuan [夏東元] ed. *Zheng Guanying Ji – Jiushi Jieyao (Wai Ba Zhong)* (Cheng Kuan-ying Anthology – Crucial Observations to Salvage the Present Situation) [鄭觀應集 – 救時揭要 (外八種)] Beijing: Chung-hwa Books, 2014. 391-393.)

¹⁶¹ Fujiya, Kōetsu. [藤谷浩悅] *Bojutsu Seihen no Shōgeki to Nihon – Nicchū Renmeiron no Mosaku to Tenkai*. (The Impact of the 1898 Reform Movement and Japan – The Pursuit and Development of

headquarters, and was managed by an obscure figure, Azuma Heiji, [吾妻兵治] who published a large amount of political literature in Chinese including in 1899 the *Organic State Theory* [國家有機體論] by the Swiss jurist Johann Caspar Bluntschli; this text would make a great impact upon the Constitutional-Monarchist leader Liang Ch'i-ch'ao, and demonstrates how Pan-Asianist organisations contributed directly to the initial growth of Chinese Statism. Newspaper reports in Shanghai spoke of how such organisations could foster a common alliance in future against European onslaught.¹⁶² Yet there were limits to such cooperation. Odagiri decided to take out one of the clauses of the charter, which stipulated that “were peace in Asia be disrupted, the members of this association would do their best to mediate and restore the continent to its prior cordiality.” This is presumably because such obligations limited Japanese diplomatic options. Cheng Hsiao-hsu, [鄭孝胥] another member, threatened to quit the association were this clause to be removed; the matter was left undecided at the inauguration meeting on 16th June, 1898. By September however, the Reform Movement in Peking had been usurped by the Empress Dowager's counter-coup, and the Shanghai Asia Society went into practical dissolution, though the Tōkyō headquarters remained in existence and would later be merged with the To'a Dōbunkai [東亞同文會] of Konoe Atsumaro. [近衛篤磨]¹⁶³

Japan was also implicated in the Reform Movement in Peking. The leading reformist, Kang Yu-wei [康有為] had ordered a Chinese translation to be done by one of his disciples, Chen Kao-ti, [陳高第] of Tarui Tōkichī's¹⁶⁴ [樽井藤吉] 1893 *On the Great Eastern Confederacy*, [大東合邦論] to be prefaced by an introduction by another disciple, Liang Ch'i-ch'ao. [梁啟超] On Kang's instigation, a chapter was added into Tarui's text to elaborate on how setting up a new Confucian Church could reunite China and Japan spiritually and politically, and to suggest that if western countries used a Christian calendar, the two countries could use a Confucian calendar, with year 1 marking the birth of Confucius. Liang's introductory text,

a Theory of Sino-Japanese Alliance) [戊戌政變の衝撃と日本－日中聯盟論の模索と展開] Tokyo : Kenmon Shuppan, [研文出版] 2015. 85.

¹⁶² “Xinwenbao”, [新聞報] 1898-06-08, quoted in Ibid., 82-83.

¹⁶³ Hazama, *Yazhou Zhuyi*, 74-75.

¹⁶⁴ Tarui had been the founder of the “part-socialist part-anarchist” Oriental Socialist Party [東洋社會黨] in May 1882, having learnt about socialism whilst in Shanghai. The party was dissolved by the Japanese government not long after its formation, and Tarui was arrested in January 1883.

however, was somewhat less optimistic; although he called Tarui “a heroic man” Liang warned of ulterior motives beneath Tarui’s superficially fair analysis.¹⁶⁵

In April 1898 Kang set up in Peking a *Society for National Salvation* [保國會] followed by provincial branches in Yunnan, Chekiang [浙江] and other places; a *Revive Asia Society* [興亞會] was also set up in Tientsin [天津] in June by Kawasaki Shizan, [川崎紫山] an agent of the Japanese *Association of Oriental Nations*. [東邦協會]¹⁶⁶ Inspired by Tarui’s text, the organisations tried to convene a meeting on the subject of merging China and Japan into one country. This envisioned in fact an unequal partnership, with Japanese direction in reforming China; the Chinese participants fantasised that they could “borrow Japanese talent”. [借才]¹⁶⁷ Yet the plans fell through by June. At the end of the month, Itō Hirobumi resigned as Prime Minister and was succeeded by Ōkuma Shigenobu. [大隈重信] Itō then left for Korea and China; in Peking his visit was highly anticipated, and his experiences in reforming Japan were regarded as valuable for China, to the extent where it was rumoured that Kang Yu-wei suggested to Emperor Kwang-hsu [光緒] that Itō be retained as advisor to the Chinese government. This met fierce resistance from the Empress Dowager, who had also received intelligence by mid-August that Kang Yu-wei was plotting a coup d’état to seize her at the Summer Palace.¹⁶⁸ On 19th September, 1898 the Empress Dowager moved back to the Forbidden City from the Summer Palace. On 20th September Emperor Kwang-hsu received Itō Hirobumi. The Chinese Emperor praised Itō for his contributions to the Meiji reforms, and asked him to offer advice to any government department he chooses on the matter of China’s reform. He also expressed his will to collaborate more closely with the Japanese Emperor.¹⁶⁹ The next day, on 21st September, 1898, the Empress Dowager launched a coup d’état and placed the Emperor in custody.

During his escape upon a Japanese naval vessel, Liang Ch’i-ch’ao obtained a copy of the political novel *Strange Encounters with Beautiful Women* [佳人之奇遇] written by Tokai Sanji [東海散士] – the *nom de plume* of Shiba Shiro, [柴四朗] a

¹⁶⁵ Liang Ch’i-ch’ao, “‘Dadong Hebang Xinyi’ Xu”, [‘大東合邦新義’序] in Xia, Xiaohong, [夏曉虹] ed. *Yinbingshi Heji’ Jiwaiwen (Shang)* (Essays not Included in the Yinbingshi Anthology – Upper Volume) [《飲冰室合集》集外文(上)] Beijing: Peking University Press, 2005. 15-16.

¹⁶⁶ Fujiya, *Bojutsu Seihen*, 70-73.

¹⁶⁷ Ibid., 86.

¹⁶⁸ Mao, Haijian. [茅海建] *Wuxu Bianfa Shishikao Chuji* (A First Compilation of Research on the Historical Facts of the 1898 Reform Movement). [戊戌變法史事考初集] Beijing: Joint Publishing [三聯書店] 2012. 133-134.

¹⁶⁹ Ibid., 445-446.

member of the National Association of Economics who had studied at Harvard University and received in 1884 a Bachelor degree in Finance from Pennsylvania University; during this period Shiba had come under the influence of the American institutionalist economist Henry Charles Carey,¹⁷⁰ the son of Mathew Carey. The elder Carey, the author of several works on economic protectionism, had been financially helped by the Marquis de Lafayette in the 1820s. He became a major influence upon Friedrich List, whom Lafayette had brought to the United States.¹⁷¹ The works of the younger Carey¹⁷² were also translated, along with that of List, by Ōshima Sadamasu and Inukai Tsuyoshi [犬養毅] circa 1890. At the start of Shiba's novel, one of the beauties, an Irish woman named Colleen [紅蓮女士] recounted how Britain annexed Ireland, and how the Ottoman Empire, Egypt and India –

“are independent in name only and not in fact. Their trade is in imbalance year after year and bullion flows out of their borders. Although they are not tributary states of Britain, their situation is no different from offering as tribute to Britain the lipids [read : riches] that have been squeezed out of their own citizenry.”¹⁷³

Once in Japan, Liang set about translating the novel into Chinese, and was helped by Luo Pu, [羅普] another disciple of Kang Yu-wei. Mori Tokihiko [森時彦] believes that this novel, which critiqued British laissez-faire liberalism and championed economic protectionism, transformed Liang's economic and political thinking, converting him to Statism. A year after arriving in Japan, Liang wrote that “Universalism belongs to the ideal, and Statism belongs to the factual. Universalism belongs to the future, and Statism belongs to the present.”¹⁷⁴ Liang's “Statist Turn” [國家主義轉向] was helped by his contact with the Japanese Statist and “Taigaikō” [對

¹⁷⁰ Mori, Tokihiko. [森時彦] “Liang Qichao de Jingji Sixiang”, [梁啟超的經濟思想] in Hazama, Naoki, [狹間直樹] ed. *Liang Qichao, Mingzhi Riben, Xifang* (Liang Ch'i-ch'ao, Meiji Japan, the Occident) [梁啟超・明治日本・西方] Beijing : Social Sciences Academic Press, 2012. 204.

¹⁷¹ Hudson, *America's Protectionist Takeoff*, 19-23

¹⁷² Henry Charles Carey was also an indirect influence on Bismarck's State Socialism. During the depression of the 1870s, Wilhelm von Kardoff, a close friend of Bismarck's and the founder in 1875 of the Central association of German Industrialists, started a campaign for protectionist policies and his main work, *Against the Current*, published in 1875 was subtitled “A Critique of the trade policy of the German Realm from the standpoint of Carey's researches.” See Wilhelm von Kardoff, *Against the Current! A Critique of the trade policy of the German Realm from the standpoint of Carey's researches*. Michael James Carr, trans. Washington : EIR News Service, 2016.

¹⁷³ Donghai Sanshi (Tokai Sanji), [東海散士] *Jiaren zhi Qiyu*. (Strange Encounters with Beautiful Women) [佳人之奇遇] Shanghai : Zhongguo Shuju, [中國書局] 1935.29.

¹⁷⁴ “Da Ke Nan” [答客難], in *Qingyi Bao* [清議報] v. 33, 1899-12-23, quoted in Mori, “Liang Qichao”, 204.

外硬] activist Kuga Katsunan, [陸羯南]¹⁷⁵ who had been an associate of Kōmuchi Tomotsune and a member of the National Association of Economics; another influence upon Liang was Nakae Chōmin, [中江兆民] the Jiyuminken Movement [自由民權運動] activist whom by then had completed his own Statist turn.¹⁷⁶ Liang was introduced, via a Chinese version rendered by Azuma Heiji of the original Japanese translation, to Bluntschli's *Organic State Theory*.¹⁷⁷ This further intensified Liang's Statist tendencies – he was convinced that the interests of the state came first before the interests of its constituents, being the individual citizen.¹⁷⁸ For Bluntschli, the State grows organically and has its own consciousness; “the State itself is the rationale for its existence and actions; there is no need to seek its basis of legitimacy anywhere else.”¹⁷⁹ Liang became editor in chief of the *New People's Gazette*, [新民叢報] a Tōkyō-based Constitutional-Monarchist paper arguing for an “enlightened despotism”, regarded as the best political system for the purposes of civilising the Chinese people who were deemed unfit for democracy and self-rule. In 1903 Liang was invited on a tour of the United States, and wrote in his travelogue that –

“Most likely, radical Socialism is not only impracticable in China today, but also in Europe and America, and if put into practice would deliver more disadvantages than words could describe. Yet what has recently been called **State Socialism is an ideology that becomes sounder by the day**, and many of its aspects can be adopted by China, with greater ease than when implemented in Europe or America. This is because State Socialism uses an extremely autocratic method of organization to put into practice a spirit of extreme equality, which miraculously matches the nature of Chinese history. Although the seizure of all land by the state must not be carried out, state ownership of the bulk of grand enterprises such as railways, mines and all kinds of manufactures could be done in China with

¹⁷⁵ Wang, Mingwei. [王明偉] “Liang Qichao yu Lu Jienan de Guomin Zhuayi” (Liang Ch’i-ch’ao and Kuga Katsunan’s Nationalism) [梁啟超與陸羯南的國民主義] In *Guizhou Social Sciences*, [貴州社會科學] 2009 (9), no. 237, 120-123.

¹⁷⁶ Zheng, Kuangmin. [鄭匡民] *Liang Qichao Qimeng Sixiang de Dongxue Beijing*. (The Japanese Intellectual Background to Liang Ch’i-ch’ao’s Enlightenment Thinking) [梁啟超啟蒙思想的東學背景] Shanghai : Shanghai Bookstore Publishing Co. [上海書店] 2009.122-169.

¹⁷⁷ See Bastid-Bruguère, Marianne. “Zhongguo Jindai Guojia Guannian Suyuan – Guanyu Bolunzhili ‘Guojialun’ de Fanyi” (“The Origins of the Concept of the State in Modern China – On the Translation of Bluntschli’s ‘Theory of the State’” [中國近代國家觀念溯源 – 關於伯倫知理 <國家論> 的翻譯] In *Jindaishi Yanjiu*, [近代史研究] 1997 (4), 221-232.

¹⁷⁸ Shan, Shilian. [單世聯] *Zhongguo Xiandaixing yu Deyizhi Wenhua* (Chinese Modernity and Deutsche Culture) [中國現代性與德意志文化] Shanghai : Renmin Chubanshe, [人民出版社] 2011.134

¹⁷⁹ Ibid., 134-135.

greater ease than in Europe or America, provided that the right people are there to put this policy in place.”¹⁸⁰

Liang did not become a consistent supporter, however, of nationalisation. That same year Liang published in Tōkyō a pamphlet entitled “Trusts – the Grand Spectre of the 20th Century”. [二十世紀巨靈托辣斯] Liang wrote that the two main tendencies in economic thought during the previous two decades had been “imperialism” – representing the interests of the State; and “socialism” – representing the under-privileged.¹⁸¹ Either way, developments in the 20th century will be a “reaction” [反動] to the laissez-faire of the 19th century; the formation of industrial trusts has become inevitable given the development of capitalism, as shown in the case of the United States. Liang believed neither the banning of trusts nor giving them a total free hand to be desirable, and that the nationalisation of trusts, as advocated by the socialists, would not be permissible under present social circumstances. Yet, Liang wrote, it would be best for the State to enforce its right of supervision and interfere directly, or indirectly, in the affairs of the trusts – and this includes powers to enforce special tax rates and minimum wages on trusts, to force the trusts to publicise their accounts, to dissolve the trusts when they interfere with public interest, and to inspect the products of the trusts in order to protect the rights of the consumers; there should also be a new tariff policy, whereby tariffs on imports are lowered for goods where the extent of the monopoly is greatest.¹⁸² Liang argued for government policies to encourage the growth of industrial trusts and conglomerates – i.e. the centralisation of all economic activity into the hands of a few combines, to be backed by strong political leadership, which would ensure enough capital to import modern production equipment that will allow effectively competition on the international market.¹⁸³ It is worth noting that this is more or less the “State Monopoly Capitalist” economic model taken up by post-war Japan and South Korea.

¹⁸⁰ “大抵極端之社會主義，微特今日之中國不可行，即歐美亦不可行，行之其流弊將不可勝言。若近來所謂國家社會主義者，其思想日趨於健全，中國可採用者甚多，且行之亦有較歐美更易者。蓋國家社會主義，以極專制之組織，行極平等之精神，與中國歷史上性質，頗有奇異契合也。以土地盡歸於國家，其說雖萬不可行，若夫各種大事業如鐵路、礦務、各種製造之類，其大部分歸於國有，若中國有人，則辦此真較易於歐美。” Emphasis mine. Liang Ch’i-ch’ao, *Ouyou Xinyinglu ; Xindalu Youji*. (Reflections on My Travels in Europe ; An Account of My Travels in the New World) [歐遊心影錄；新大陸遊記] Beijing : Dongfang Chubanshe, [東方出版社] 2012. 266.

¹⁸¹ Liang Ch’i-ch’ao, “20 Shiji Juling Tuolasi”, in *Yinbingshi Quanjì* (The Full Yinbingshi Anthology). Taipei : Taifu Books, [大孚書局] 2016.v.2, 95.

¹⁸² Ibid., 116-117.

¹⁸³ Lai, Jiancheng. [賴建誠] *Liang Qichao de Jingji Mianxiang*. (The Economic Facet of Liang Ch’i-ch’ao) [梁啟超的經濟面向] Hangzhou : Zhejiang University Press, [浙江大學出版社] 2010. 157.

Liang's publications, which had a great impact on the Chinese student community in Tōkyō, were smuggled en masse to China as well as being sold in Korea to the Chinese-literate community, who were often members of the aristocratic-literati, or *yangban*. [兩班]¹⁸⁴ Around 1901 a group of Chinese students in Tokyo started a journal entitled *Compilation of Translated Literature*. [譯書彙編] The editorial committee included Chang Tsung-hsiang [章宗祥] and Tsao Ju-lin, [曹汝霖] both to become key figures in the negotiations for the Nishihara Loans in 1917-1918. On its first issue, the journal published a Chinese translation, apparently of Ōshima's Japanese edition of the First Book of Friedrich Lists's *National System of Political Economy*.¹⁸⁵ Issue 7 contains a Chinese translation of the legal scholar Tachi Takutarō's [立作太郎] translation of the 1898 book *China in Transformation* [支那化成論] written by the British colonial administrator, Archibald Ross Colquhoun, who urged the industrialisation of China and the construction of railway and canal networks.¹⁸⁶ In Liang's works as well as the students' translation journals emerged a new and more sophisticated understanding of what China should do to rid itself of its passive, humiliating position in international affairs, and of the role of the modern government beyond the simple, abstract traditional notion of a 'benevolent ruler'; this amounted to nothing less than a paradigm shift. In 1905 Liang, though a banished exile, was commissioned as ghost-writer for five ministers who toured Europe and America to inspect the achievements of constitutionalism.¹⁸⁷ The Empress Dowager had been, since 1901, committed to modernisation, with reforms taking place in policy aspects ranging from policing to education, whilst local

¹⁸⁴ Paek, Young-seo. [Bai Yongrui] *Sixiang Dongya – Chaoxian Bandao Shijiao de Lishi yu Shijian*. (Thinking East Asia – History and Praxis from the Perspective of the Korean Peninsula) [思想東亞] Beijing: Joint Publishing, [三聯書店] 2011. 230-234. Liang also met the Vietnamese activist Phan Bội Châu [潘佩珠] leader of the Vietnam Reform Society. [維新會] during his stay in Tōkyō in 1905-8, where he unsuccessfully sought aid from Ōkuma Shigenobu; Phan wrote, under Liang's encouragement, a Chinese book entitled *A History of the Downfall of Vietnam*. [越南亡國史] His works were then smuggled into Vietnam. By 1921 Phan would have turned socialist and established correspondence with Ho Chi-minh; Phan travelled to Shanghai in 1925 to meet Ho but was arrested by French Concession Police; he died in house arrest in Hue in 1940. See William J. Duiker, "Phan Boi Chau: Asian Revolutionary in a Changing World". In *The Journal of Asian Studies* 31 (1) (Nov, 1971), 77-88..

¹⁸⁵ A textual comparison of Ōshima's translation, *Rishi Keizai Ron* [李氏經濟論] and the Chinese translation, "Lcai Xue" [理財學] in *Yishu Huibian*, 1901 (1), 1-46 shows beyond doubt that the latter was derived from the former.

¹⁸⁶ "Zhina Huacheng Lun", in *Yishu Huibian*, 1901 (7), 1-106.

¹⁸⁷ See Xia, Xiaohong. [夏曉紅] "Cong Xinfaxian Shougao Kan Liang Qichao wei Chuyang Wudachen Zuo Qiangshou Zhenxiang". (The Truth of Liang Ch'i-ch'ao being the Ghost-writer for the Five Ministers Sent Abroad as Seen from Newly Discovered Manuscripts) [從新發現手稿看梁啟超為出洋五大臣做槍手真相] In *Nanfang Zhoumo* [南方周末], no. 1292. (Dec 2008) <http://news.ifeng.com/history/zhongguojindaishi/detail_2009_05/19/324593_0.shtml> Accessed on 2018-09-01.

autonomy was promoted through the establishment of provincial councils, [諮議局] which culminated in the convention in September 1910 of a provisional parliament known as the Advisory Council. [資政院]

On the economic front two men spearheaded the modernisation process – Viceroy Chang Chih-tung [張之洞] with his steelworks in Hanyang, and Yuan Shih-k'ai. [袁世凱] who was Li Hung-chang's successor as Viceroy of Chihli [直隸總督] and Peiyang Minister. [北洋大臣] The Viceroys placed their economic investments in the hands of able administrators who totally diverged in their economic thinking; together they were known as “Chang for the south and Chow for the north”. [南張北周] In Tientsin, [天津] Yuan's protégé Chow Hsueh-hsi [周學熙] was placed in charge of government-run enterprises including gas, electricity and water supply, in addition to a Bureau of Crafts, [北洋工藝局] silver and copper coin mints, a paper mill, an ironworks, a cement factory and collieries.¹⁸⁸ Yuan Shih-k'ai trusted nobody but Chow on financial matters and treated him as his personal accountant. [帳房先生]¹⁸⁹ On the other hand, in Nantung [南通] to the north of Shanghai, Chang Chih-tung's protégé Chang Chien [張謇] – a member of the Shanghai Asia Society in 1898¹⁹⁰ – built cotton mills and managed them on strict business principles, in addition to making Nantong a ‘model city’. Chang emphasised private participation in industrial and agricultural projects; although he argued for “the need for active state support for the opening of new land to cultivation [in] the form of long-term tax exemptions, reforestation projects, and education [...] the actual projects were to be carried out by mercantile joint-stock companies, and by agricultural associations.”¹⁹¹

At the very top of the hierarchy, Statist economic ideology was being disseminated amongst Manchu aristocrats by their lecturer Yang Tu, [楊度] a graduate of Hosei University [法政大學] who received a joint-recommendation from both Chang Chih-tung and Yuan Shih-k'ai to the Empress Dowager on 20th April, 1908. Yang's classes for the nobles at the Summer Palace in April-May 1908 was based on a text entitled *The Doctrine of Gold and Iron* [金鐵主義說] that he had

¹⁸⁸ Xu, Jiansheng [徐建生] & Xu Weiguo. [徐衛國] *Qingmo Minchu Jingji Zhengce Yanjiu*. (A Study of Economic Policy at the End of the Ch'ing Dynasty and the Early Republican Period) [清末民初經濟政策研究] Guilin : Guangxi Normal University Press [廣西師範大學出版社] 2001, 164.

¹⁸⁹ Ibid., 164.

¹⁹⁰ Hazama, *Yazhou Zhuyi*, 72.

¹⁹¹ Feuerwerker, *China's Early Industrialisation*, 38.

published in serial format on a Chinese newspaper in Tōkyō.¹⁹² Meant to be an update to Bismarck's Doctrine of Blood and Iron, Yang argued that China could only survive in this barbaric world by mobilising itself with an "economic militarism" [經濟的軍國主義] in order to emerge victorious in economic warfare. Japan served for him as the role model of an "economic warfare state". [經濟戰爭國]¹⁹³ He quoted Liang Ch'i-ch'ao's advocacies and emphasized again the need for an enlightened despotism that would make "production" its priority, followed by "distribution", [生產為急，分配為後] warning that failure to do so would result in proletarian socialist uprisings.¹⁹⁴ Though being a constitutionalist who proclaimed, during his classes for the nobles, that he shall risk his life to mobilise popular support for the convention of a democratically-elected parliament,¹⁹⁵ Yang Tu regarded parliamentary institutions as a means of instilling a collectivist consciousness in the minds of the Chinese, writing that "China has progressed in its national level from feudalist society into national society [...] the Han peoples have evolved from nationalism into statism, but without having broken the remnants of their concept of the family clans, they are still not fully made into citizens of a military state."¹⁹⁶ It is very possible that Yang took these notions from the veteran translator and Greenwich Naval Academy graduate Yen Fu [嚴復] who also described a similar evolutionary tendency from feudalist [宗法社會] to militarist society, [軍國社會] and thought of such an evolution to be a form of individual liberation – being the emancipation of a person from feudalist blood and clan relations and family bonds, to allow him to assimilate into larger and more modern collectives, such as the State.¹⁹⁷

It was also in 1906-7 that a debate on Socialism broke out between the Revolutionaries under Sun Yat-sen and the Constitutional-Monarchists under Liang Ch'i-ch'ao. During their early years in Tōkyō, Inukai Tsuyoshi [犬養毅] had attempted to reconcile the two parties to no avail.¹⁹⁸ The two sides were divided on a number

¹⁹² Zuo, Yuhe. [左玉河] "Daoyan" (Introduction), in Yang, Tu (Yang Du). [楊度] *Yang Du Juan* (Yang Tu Anthology), [楊度卷]. Zuo, Yuhe, [左玉河] ed. Beijing: Renmin University Press, [人民大學出版社] 2015. 5-6.

¹⁹³ Yang, Tu. "Jintie Zhuyi Shuo", (The Doctrine of Gold and Iron) in *Ibid.*, 123-124.

¹⁹⁴ Yang, Tu. "Jintie Zhuyi Shuo", (The Doctrine of Gold and Iron) in *Ibid.*, 80-81, 89.

¹⁹⁵ Zuo, Yuhe. [左玉河] "Daoyan" (Introduction), in *Ibid.*, 6.

¹⁹⁶ Yang, Tu. "Jintie Zhuyi Shuo", in *Ibid.*, 123. "夫中國國家程度已由宗法社會，進化而入於國家社會 [...] 漢族之程度，已由民族主義進化而入於國家主義，惟尚有些須之家族思想未破，故尚為不完全軍國國民。"

¹⁹⁷ Qin, Hui. [秦暉] *Zouchu Dizhi* (Emerging from Monarchy), [走出帝制] Beijing: Qunyan Chubanshe, [群言出版社] 2015. 326-327.

¹⁹⁸ Lai, Liang Qichao, 150.

of issues that included the necessity of a social revolution, the need for a capitalist class, the admittance of foreign capital investment, and state ownership of land. Both sides used as a reference the works of Richard T. Ely, the American institutionalist who had studied under the German historical school economist Karl Knies.¹⁹⁹ The debate also gave Liang a chance to quote from the works of economists Gustav von Schmoller, Adolph Wagner and even the Marxist economist Kawakami Hajime. [河上肇]²⁰⁰ Liang opposed social revolution on the grounds that China did not have the ingredients that made social revolution necessary in Europe – an oppressive aristocracy and clergy, primogeniture and heavy taxes, suggesting that “The first priority should be to reward capitalists, with protecting labour being the second priority.”²⁰¹ Liang disagreed with Sun’s welcoming attitude towards foreign investment and his notion that free trade will prevent enterprises from slackening, arguing for protectionist measures on Statist lines. Liang also harboured the optimistic view that the profits of enterprises would be shared socially due to their joint-stock composition; this earned him mockery from the Revolutionaries.²⁰²

State Socialism became integral to the revolutionary ideology. Feng Tzu-yu [馮自由] mentioned in 1906 the formation of Yamaji Aizan’s State Socialist Party in the previous year, and noted that the Meiji government, under the influence of State Socialism which had already “achieved much” in Germany, had nationalised and monopolised a number of industries ranging from railways to tobacco. Feng was careful to translate State Socialism as “The State Principle of Livelihood”, [國家民生主義] as opposed to the Japanese translation *Kokka Shakai Shūgi*. [國家社會主義] He thought that the best timing for its implementation would be under a the military government set up immediately after the hypothetical revolution, for it would be too late to do so after private capital has already rapidly expanded due to improved economic circumstances, post-revolution.²⁰³ On the other hand, Liang and the constitutionalists disapproved of Social Revolutionism [社會革命主義] as promoted by Sun Yat-sen’s camp, on the reason that China did not yet possess the conditions for setting up a Social Revolutionary State which would double as the “Sole Company”

¹⁹⁹ Ibid., 156 note 62, 159.

²⁰⁰ Ibid., 169 note 63.

²⁰¹ Ibid., 156-157. “當以獎勵資本家為第一義，而以保護勞動者為第二義。”

²⁰² Ibid., 159.

²⁰³ Feng Tzu-yu, [馮自由] “Minsheng Zhuyi yu Zhongguo Zhengzhi Geming zhi Qiantu” (The Doctrine of Popular Livelihood and the Future Course of Political Revolution in China) [民生主義與中國政治革命之前途] in *Xinhai Geming Qian Shinianjian Shilun Xuanji*. 419, 424-425.

[獨一無二之公司] in the country, in charge of clothing, feeding, housing and employing all of its population – Liang thus accurately forecasted the Soviet model that would arise a decade later. On the other hand the constitutionalists approved of Social Reformism [社會改良主義] as manifested in Japan's policies of state control over railways, tramways, electricity, gas and water supply – described as a policy to prevent the profits of these natural monopolies from concentrating in the hands of the few – in addition to other aspects of Bismarckian State Socialism : the promulgation of factory and industrial cartel legislation, compulsory insurance, the promotion of workers' savings, and a progressive profits tax and inheritance tax regime.²⁰⁴ In short, despite the virulence of the debate, both the revolutionaries and the constitutionalists subscribed to similar notions of State Socialism, only that the revolutionaries saw it as being Socialism and the constitutionalists thought of it as being a subset of Statism.

The main battlefield between the two camps was however over the question of land ownership – an issue of perpetual political importance in Chinese history. The Revolutionaries, inspired by the advocacies of Henry George, predicted a rise in land prices with the construction of railways, and warned that the concentration of such land in the hands of a few would be unfair. "Only via the doctrine of State Ownership of Land [...] could the great part of capital in the country be also claimed by the state. Our policies, if implemented, will require no rewarding of capitalists; in fact, no large capitalist will emerge in this country. With the State as the largest landowner, the State will also be the largest capitalist."²⁰⁵ The Revolutionaries further attacked Liang for "worshipping Socialism on questions of distribution and opposing Socialism on questions of production", noting that Liang approved of progressive income tax rates, death duties, factory legislation and laws on industrial trusts.²⁰⁶ The results of the debate was inconclusive, for Liang's *New People's Gazette* was disbanded before the debate had ended.

The debate was conducted against the backdrop of continued controversy over whether the Chinese State should own its railways. Adolph Wagner's influences are present in an essay from 1906 by Chu Chih-hsin, [朱執信] revolutionary and secretary to Sun Yat-sen. It was entitled *The Socialist Perspective on Public or Private*

²⁰⁴ Liang Ch'i-ch'ao, "Shehui Geming Guowei Jinri Zhongguo suo Biyao hu" (Is Social Revolution Necessary in China Today?) [社會革命果為今日中國所必要乎] in *ibid.*, 343, 358.

²⁰⁵ *Minbao* [民報] vol. 12, 74-75. Quoted in Lai, *Ibid.*, 164.

²⁰⁶ *Ibid.*, 160.

Management of China's Railways, in which Adolph Wagner was quoted as having said that "Should there not be a special reason for which railways should not be publicly-owned, the nationalisation of railways would be desirable."²⁰⁷ The Revolutionaries were however by no means in support of a nationalisation policy conducted by the Manchu regime; this was whilst most of the Constitutionalists were opposed to nationalisation, with Cheng Kuan-ying and Yang Tu – then a student leader in Tōkyō – fighting hard battles from within and without China²⁰⁸ for continued private ownership by the country gentry and emergent bourgeoisie of railway projects. Many of these had stalled due to financial difficulties – a condition which lent the State excuses for nationalisation. Sheng Hsuan-huai, [盛宣懷] also a member of the Shanghai Asia Society in 1898,²⁰⁹ was another protégé of Viceroy Chang Chih-tung. As Director of the Chinese National Railway Company and later Minister of Communications, he was under heavy attack for even contemplating nationalisation, a matter which rumbled beneath the surface until its formal announcement in May 1911 – by which time Yang Tu, having risen rapidly through the hierarchy and appointed Chief of the Statistics Bureau, reversed his stance and warned that the slow construction of private railways would delay developmental opportunities for China.²¹⁰ The announcement that the state would take over the railway mainlines [鐵道幹線國有] – which was not submitted for discussion in the Advisory Council or the Provincial Councils – unleashed a wave of fury particularly in Szechwan, where the purchase of railway bonds had been compulsory. The protests in Chengtu [成都] were bloodily repressed, and extra forces were sent in from Hupeh; seizing this opportunity, revolutionary elements in the army at Wuchang staged an uprising on 10th October and soon received widespread support from the various Provincial Councils dominated by Constitutional Monarchists. Many of them had already lost faith in the Manchu regime for having denied, for a fourth time, their pleas to convene an elected parliament, with the last straw being railway nationalisation and the appointment in May of a cabinet dominated by Manchu nobles.²¹¹

Sheng Hsuan-huai's inspiration had come from the 1906-7 nationalisation of Japanese railways. In September 1908 Sheng travelled to Japan, where he stayed for

²⁰⁷ Chu, *Anthology*, 31.

²⁰⁸ Pang, *Yuehan Tielu*, 86, 142.

²⁰⁹ Fujiya, *Bojutsu Seihen*, 80.

²¹⁰ Pang, *Yuehan Tielu*, 142.

²¹¹ Hou, *Qingmo Guohui*, 397-398.

almost three months, during which time both the Emperor Kwang-hsu and the Empress Dowager passed away. On 21st, 22nd and 24th October, 1908 Sheng met with Gotō Shinpei, Minister of Railways Hirai Seijirō [平井晴二郎] and Prime Minister Katsura Tarō respectively. In his travelogue Sheng wrote, after meeting Gotō, that China might in future learn from the latter's railway nationalisation policy, but that this would need to wait until the completion of a basic railway network in China, with the opening of the Canton-Hankow and Szechwan-Hankow lines.²¹² Katsura boasted to Sheng that the nationalisation of the 17 railway companies produced a total capital of six hundred million yen; he also discussed the initial difficulties with operating the Yawata Steelworks and suggested that because much of the ore used at Yawata was being imported from Tayeh in China, that perhaps Tayeh could also be jointly operated by the two countries. "Your great country is rich with raw materials, and our humble country is good at manufacture," said Katsura. "Why not provide from each of us half of the capital needed, and distribute the profits accordingly, so that we may fully cooperate and speedily catch-up, and resist the influx of foreign steel." Sheng then questioned Katsura on the question of ownership, saying that he is sceptical of Katsura's judgment that the losses incurred by the Yawata Steelworks was due to it being owned by the government, arguing that "the Hanyang Steelworks that I am running is managed by merchants and still makes a loss; this is due to the quantity of goods produced, and certainly not whether it was owned by the state or by merchants." Katsura replied that Sheng was correct, and that "after the nationalisation of the railways of our humble country everything has been better than when they were under private control, the main benefit being the increased size of capital; yet if the government fails to operate the enterprise on sound principles it would create even more damage than private ownership."²¹³

In an article on railway nationalisation from mid-1911, Liang Ch'i-ch'ao wrote that of all streams of economic theory, "State Socialism is the most moderate, and such a spirit is materialised by a policy of railway nationalisation, which is why it has been adopted by most countries around the world; our party also approves of it. Now that our government has also adopted it, there should be nothing in it that we could criticise."²¹⁴ And yet he judged that the government's intention was not to

²¹² Sheng, "Yuzhai Dongyou Riji", [愚齋東遊日記] in Yi, *Sheng Xuanhuai*, 292-293.

²¹³ Ibid., 294.

²¹⁴ Liang, "Shouhui Ganxian Tielu Wenti", [收回幹線鐵路問題] in *Yinbingshi Wenji* (The Yinbingshi Anthology) vol. 3. Beijing: Chung-hwa Books, [中華書局] 1989.v.3 (25-lower), 51.

implement State Socialism, but only to increase its revenue, and warned that few railways in China were profitable in any case, having been obliged to repay huge sums every year for the foreign loans. The nationalisation of railways was widely criticised for being a facade over the real intention of mortgaging all railways to the Five-Nation Consortium in return for more loans.²¹⁵ Another motive on Sheng's part, as identified by Hatano Yoshihiro, [波多野善大] was to ensure that his Hanyang Steelworks would have a monopoly on the supply of rails to all new lines.²¹⁶ That railway nationalisation was 'standalone' did not preclude in theory further, more constructive and systematic nationalisation policies, yet the fall of the Manchu government came too quickly for anything to happen.

Despite the revolution, the policy of railway nationalisation was continued by the Republican government. Upon his resignation as Provisional President of the Nanking Government on 1st April 1912, Sun Yat-sen took up Sheng's former position as Director of the National Railways and insisted on their state ownership. Much like the "Seven Arrows" of Mustafa Kemal Atatürk, Sun Yat-sen adopted an eclectic approach to organising his political philosophy, usually known as the Three Principles of the People [三民主義] – these being the doctrines of Nationalism, [民族主義] Popular Rights [民權主義] and Popular Livelihood [民生主義] – corresponding to Abraham Lincoln's motto, "Government of the people, by the people and for the people." The last of the three corresponded to nothing readily available in western political philosophy, and throughout his political career Sun would struggle to come up with an approximation in western terms for the Doctrine of Popular Livelihood.²¹⁷ In the early 1910s however, "Sun Yat-sen adopted the advocacies of State Socialism and thought that the Doctrine of Popular Livelihood meant State Socialism."²¹⁸ On his resignation as Provisional President, Sun spoke on "The Doctrine of Popular Livelihood and State Socialism" at a farewell dinner organised by the Revolutionary League, where he said that "A policy that on one hand strives

²¹⁵ Pang, Guangyi. [龐廣儀] *Yuehan Tielu – Jiannan de Choujian yu 'Guoyouhua'*. (The Canton-Hankow Railway : Its Difficult Funding and Construction, and its 'Nationalisation') [粵漢鐵路 – 艱難的籌建與 '國有化'] Hefei : Hefei Gongye Daxue Chubanshe, [合肥工業大學出版社] 2011. 141-145.

²¹⁶ Hatano, *Kōgyōshi*, 501-502.

²¹⁷ In the early 1920s, during the high phase of Kuomintang-Communist collaboration and Soviet assistance, Sun would equate this Doctrine with Communism – a comparison that would embarrass the later, anti-Communist Chiang Kai-shek regime. See Sun, "Minsheng Zhuyi Diyijiang", [民生主義第一講] in *Sanmin Zhuyi* (Three Principles of the People). [三民主義] Taipei : Sanmin Shudian, [三民書店] 2007. 176.

²¹⁸ Zhou, Jinsheng. [周金聲] *Sun Zhongshan Xiansheng Jingji Sixiang* (The Economic Thought of Dr. Sun Yat-sen) [孫中山先生經濟思想] Taipei : Self-Published, 1968. 187.

for national wealth and power and on the other hand pre-empts the maladies of monopolisation by the capitalists must be none other than Socialism. It is for this reason that our League has adopted the policy State Socialism in its manifesto.”²¹⁹ Special mention was made in this speech of German State Socialism, and an emphasis was made on the nationalisation of railways and other public utilities –

“China must learn from German practices. This will permit us to extend the railway system by two hundred thousand *li* (i.e. 100,000 km) and increase the revenue of the state by a hundred million per annum. This alone will be more than enough for the public expenditure of the whole nation. [...] In China, except for fields and houses, most mines and forests belong to the state. In Britain the large sums incurred every year in the rent of mines go to the hands of the landowners. In China, the mines are government owned, so why can't they be let out to private investors for a profit? Should China adopt State Socialist policies, [revenue from] land rent alone will be increased many dozens of times compared to where they are now.”²²⁰

After leaving Nanking Sun Yat-sen toured the country, and in Kwangtung Province in spring 1912, he proclaimed that “Our Republic is socialist and we are intent on following the principles of socialism. All the leaders [of the Kuomintang] are authentic socialists.”²²¹ On 4th September, 1912 Sun Yat-sen gave a speech on State Socialism to members of the Republican Party, saying that “Britain and America have been subjected to abuse from the autocracy of capitalists, [...] In China ten years from now there will be more than a hundred thousand capitalists. Only by advocating State Socialism will such a malady be pre-empted. [...] Our advocacy of state ownership for the railways is State Socialism.”²²² In October Sun Yat-sen returned to Shanghai and spoke at the Chinese Socialist Party for three days, from 15th-17th October, on “Variants of Socialism and their critique”; the speech has been described as a sign of the maturing of Sun's economic thinking.²²³ This is whilst Sung Chiao-jen, [宋教仁] President of the Kuomintang before his assassination in March 1913, wrote in the Party Manifesto of August 1912 that the Kuomintang would

²¹⁹ Ibid., 187.

²²⁰ Ibid., 188.

²²¹ Edward Friedman, *Backward Toward revolution. The Chinese Revolutionary party*, Berkeley, Univeristy of California Press, 1974, 17. Quoted in Marie-Claire Bergere, *Sun Yat-sen*. Paris : Fayard, 1994. 259.

²²² Zhou, *Sun Zhongshan*, 190.

²²³ Ibid., 190.

endeavour to “adopt Social Policies, put in practice State Socialism to foster the livelihood of our citizens, and make use of state authority to promote even and rapid economic development in this country.”²²⁴

Thus by late 1912, the Statist-protectionist economic platform of the constitutionalists represented by Liang Ch’i-ch’ao and Yang Tu had converged with the State Socialist platform held by revolutionaries like Sun Yat-sen and Sung Chiao-jen. They shared a common conviction in the necessity of state direction, even ownership, of transport and strategic industries. The result was that the new Republican government readily accepted the norms and institutions of the bureaucratic-entrepreneurial industrial system that had been built up by the Manchu-Peiyang reformist officials; such norms included the widespread use of official positions to garner private profit – a legacy of the “Mandarin-supervised Merchant-operated” phase of industry.²²⁵ Together, the overwhelming Statist tendencies of the two parties drowned out the other constitutionalist demands for the encouragement of private entrepreneurship, represented for example by Chang Chien. The cause of the defence of private capital, which had been integral to the reformist movement, and had also sparked the revolt of 1911, was betrayed. The policy of extensive foreign borrowing was also continued without further question. This, and state ownership of strategic industries, provided the necessary conditions for the shaping of Nishihara's plans, which would have altogether been very different had railway privatisation and internal financing been instead promoted in 1911. Indeed, as Chapter 3 of the April 1918 Sino-Japanese industrial and financial memorandum would state, Japanese cooperation was conditional on China abiding totally to the Doctrine of State Ownership of the Railways. [鐵道國有主義]²²⁶

In April 1913 the new Parliament was convened in Peking with the Kuomintang occupying the largest number of seats; the erstwhile Constitutional-Monarchists decided to join forces, and on 29th May the Progressive Party [進步黨] was formed by the amalgamation of the Democratic Party [民主黨] led by Liang Ch’i-ch’ao, the Unification Party [統一黨] led by Chang Chien, and the Republican Party [共

²²⁴ “曰採用民生政策，將以實行國家社會主義，保育國民生計，以國家權力，使一國經濟之發達均衡而迅速也。” Sung, Chiao-jen (Song, Jiaoren). [宋教仁] *Song Jiaoren Juan* (Sung Chiao-jen Anthology) [宋教仁卷] Guo Hanmin [郭漢民] and Bao Hongbo [暴宏博] eds. Beijing: Renmin University Press, [中國人民大學出版社] 2015. 317.

²²⁵ Feuerwerker, *China's Early Industrialisation*, 244, 251.

²²⁶ “Nishi Ryōkoku Shinzen ni Kanshi Kyōyaku Sesshi ni Taisuru Ryōkoku Seifu Taihyō Oboegaki”, [日支兩國親善ニ關シ協約設施ニ對スル兩國政府代表覺書] in Suzuki, ed. *Nishihara Shakkai*, 184-185.

和黨] led by Li Yuan-hung, [黎元洪] who was the nominal leader of the 1911 Wuchang military uprising; the party declared its platform as Statist. [國家主義]²²⁷ Ironically, the party's main contribution to the Republican-era economy – in the personal form of Chang Chien – was adamantly against economic Statism. Chang had been one of the many Constitutional-Monarchists who joined the Revolutionary Government in Nanking, and served as its Minister of Industry. [實業部長] He continued as Minister of Agriculture and Commerce [農商總長] when the Republican Government moved back to Peking, with Yuan Shih-k'ai as President. Bureaucratic-entrepreneurial industries, many in financial chaos due to mismanagement and appropriation of funds – despite having achieved monopolies for certain raw materials and within certain markets – became the shaky economic basis of the new Peiyang-Republican regime under Yuan Shih-k'ai.²²⁸ Chang was aware of the low efficiency and corruption of state industries, and having visited Japan for two months in 1903, argued explicitly that it was Matsukata Masayoshi's [松方正義] privatisation policy in the 1880s which allowed Japan to escape from its financial and industrial trouble and to become truly prosperous as a result.²²⁹ Chang advocated a new industrial strategy based on government assistance to privately-operated concerns, [民辦官助] that would give the state the primary role of legislating and of fixing tax rates to encourage or discourage industries as need be, and to establish research institutes to foster scientific and agricultural improvement.²³⁰ Although Chang Chien shied away from the notion of 'private ownership', [民有] he successfully carried out a Matsukata-inspired policy, whereby seven non-profitable mines were closed, and five others were privatised. He also copied from Japan a policy whereby the state would guarantee the initial interest on the capital of newly established industries: 6% for \$700,000 of capital in industries cotton, wool and steel; 5% for \$200,000 of capital in industries silk, tea and sugar.²³¹

²²⁷ Jinbudang. (Progressive Party) [進步黨] "Jinbudang Xuanyanshu, Dangzhang, ZXhengwubu Guize, Dangwubu Guize, Guohui Yiyuanhui Jianzhang, Benbu Yiyuan Mingdan, (The Progressive Party Manifesto, Charter, Regulations of the Political Bureau, Regulations of the Party Affairs Bureau, Charter of the Association of Members of Parliament, Name List of Members of Parliament) [進步黨宣言書、黨章、政務部規則、黨務部規則、國會議員會簡章、本部議員名單] 1913. 5.

²²⁸ Xu & Xu, *Qingmo Minchu*, 116-117.

²²⁹ Sun, Zhijun. [孫智君] *Minguo Changye Jingji Sixiang Yanjiu (A Study of Republican Era Industrial Economic Thought)*, [民國產業經濟思想研究] Wuhan: Wuhan University Press, 2007. 47-48.

²³⁰ Xu & Xu, *Qingmo Minchu*, 133.

²³¹ Ibid., 136.

Chang's industrial vision could be summarised as the "Cotton & Iron Doctrine", [棉鐵主義] which he raised in his October 1913 "Political Manifesto on Industry", [實業政見宣言書] and his announcement of aims upon assuming office²³² Chang listed the import statistics of cotton yarns for Britain, North America and South America to illustrate the point that cotton has become one of the greatest imported commodities around the world, and that China should develop cotton cultivation to substitute for its own cotton imports (valued at Mex \$180,000,000 during the previous decade) and satisfy global needs for cotton. Chang also urged the exploitation of iron ore deposits and the establishment of steelworks to satisfy China's enormous need for the metal.²³³ The nature of Chang's vision – being an import-substitution strategy – is beyond doubt; as we shall see, Nishihara developed this vision into one of self-sufficiency, i.e. import-substitution for the whole of East Asia. Chang resigned in 1915 in protest against Yuan Shih-k'ai's Bonapartist attempt to enthrone himself with the support of Yang Tu, Yen Fu and other authoritarian thinkers. Chang was drawn to Yuan's protégé, the Berlin Kriegsakademie graduate Tuan Ch'i-jui, [段祺瑞] who shared his Republican objection to Yuan. Throughout 1916-7 Chang often corresponded with Tuan who assumed Premiership upon Yuan's death in June 1916.²³⁴ As we shall see, Nishihara extended and developed on Chang's policy thinking – including the need for agricultural experimentation; and although he argued for State Socialism for Japan, Nishihara never precluded private ownership of Chinese concerns in collaboration with Japan; his vision would not have conflicted with Chang's.

Representing the Statist economic tendency in government, Chow Hsueh-hsi, the former economic tsar in Tientsin, had also visited Japan in 1903 and drew a more nuanced conclusion compared to that of Chang – that prerequisite to Japan's "economic miracle" was the provision of communications and transport infrastructure by the Meiji government, which in turn allowed the mass emergence of successful private entrepreneurship and other civilian organisations, notably in education.²³⁵ At the start of his tenure as Finance Minister Chow was already

²³² "Shiye Zhengjian Xuanyanshu" [實業政見宣言書] and "Xuanbu Jiuburen Shi Zhi Zhengce", [宣布就部任時之政策] in Chang, Chien. (Zhang, Jian) [張謇] *Zhang Jian Quanjì* (Full Anthology of Zhang Jian.) [張謇全集], v. 1. Cao, Congpo [曹從坡] et al, eds. Nanjing: Jiangsu Guji Chubanshe, [江蘇古籍出版社] 1994. 271-277.

²³³ "Shiye Zhengjian Xuanyanshu", in Ibid., 274.

²³⁴ Ibid., 342, 345, 354-358, 360.

²³⁵ Chow, Hsueh-hsi. [周學熙] and Shen I-ching. [沈翊清] *Dongyou Riji*. [東遊日記] Changsha: Yuelu Shushe, [岳麓書社] 2016, 123-124.

advocating State Socialism. In a pamphlet from December 1912 entitled “Outline of a Financial Programme Drafted by the Ministry of Finance” [財政部擬財政計劃大綱] Chow announced that “this Ministry intends to employ”, once loans have been secured from the Six-Nation Consortium, “foreign financial experts to implement State Socialism, so as to foster all varieties of industry and open up vast new sources of revenue.”²³⁶ The document then listed the industrial projects that would be prioritised.²³⁷ Until his resignation in April 1916, Chow embarked upon financial reorganisation to restore order to the markets in addition to aggressive nationalisation, notably by maintaining existing monopolies on salt and fuel oil, and establishing monopolies over lucrative sectors such as mining and tobacco – the last involving failed attempts in 1914 and 1917 to nationalise the most successful of privately-run tobacco companies, the Nanyang Brothers Tobacco Company. [南洋兄弟煙草公司]²³⁸ Chow’s son described his father’s economic policies as being based on “planned economics and industrial development”.²³⁹ In 1914 the Senate reported to Yuan Shih-k’ai that “In an age where the tides of Statism are prevalent [...] Adam Smith’s theories are no longer to be relied upon”.²⁴⁰ As we shall see in Section 3.6.2, the surveys undertaken during this period by the Geological Institute of the Ministry of Agriculture & Commerce served to complement the industrial development policies advocated in Chow’s pamphlet; these activities, though directed by Chang Chien, could be regarded as an outgrowth of Chow’s State Socialist, industrialising sentiment.

²³⁶ “本部擬聘外國財政大家實行國家社會主義使各種產業勃興大開利源”。The original document, “Caizhengbu Ni Caizheng Jihua Dagang” [財政部擬財政計劃大綱] can be seen in *Beiyang Zhengfu Dang’an* v.67, 361-362. Its editors, the Second Historical Archives of China based in Nanjing, judged that the undated document was written in 1917; but according to Chow Hsueh-hsi’s biography written by his son, this document was penned during Chow’s tenure as Minister of Finance. See Zhou Shuzhen, *Zhou Zhi’an Xiansheng Biezhuan*, 71, quoted in *Ibid.*, 164-165. An approximate date can be established by an *Asahi Shimbun* translation of extracts of the pamphlet, dated 15th December, 1912. The Shanghai newspaper *Shen Pao* also published extracts of the pamphlet on 20th December, 1912.

²³⁷ i. Copper Mines in Yunnan; ii. Oil wells at Yen-chang [延長石油]; iii. Li-kuo Iron Mine [利國鐵礦] iv. Mohe Gold Mine; [漠河金礦] v. Commercial port, harbour facilities and dockyards at Chinhwangtao; [秦王島商埠海塘船塢] vi. Railways in Inner Mongolia north of the Great Wall; [口北鐵路] vii. Railways in various provinces; [各省鐵路] viii. The implementation of Forestry Legislation along the Yangtze River; [沿江一帶荒山實行森林法] ix. Spinning factories; x. Other industries.

²³⁸ Xu & Xu, *Qingmo Minchu*, 175.

²³⁹ Zhou Shuzhen, [周叔禎] *Zhou Zhi’an Xiansheng Biezhuan*, [周止庵先生別傳] (Shanghai: Shanghai Shudian, 1948), 36. Quoted in *Ibid.*, 168.

²⁴⁰ “Canzhengyuan Daixing Lifayuan Ziqing Dazongtong Lixing Jingji Zhengce Zhengchi Guohuo Wen” [參政院代行立法院咨請大總統勵行經濟政策整飭國貨文] in *Nongshang Gongbao* v.1 (5), quoted in *Ibid.*, 168.

After the death of Yuan Shih-k'ai in June 1916, in order to placate the rebel forces composed of both Kuomintang and Progressive elements (including Liang Ch'i-ch'ao himself), the new cabinet under Tuan Ch'i-jui was set up as a grand coalition of both parties. Chow's successor as Minister of Finance was a Kuomintang member, Ch'en Chin-t'ao, [陳錦濤] who had obtained his PhD in political economy from Yale University. On 20th March, 1917 representatives of the Ministry of Finance went to the House of Representatives to present a number of bills that included provisions for a General Business Tax, [普通營業稅] Death Duty, [遺產稅] Land Value Increment Tax, [土地增值稅] the issuance of Government Bonds set at 6% interest, [六厘公債] and the establishment of a Chinese National Insurance Board. [中華國立保險局] Some of these provisions, particularly the Land Value Increment Tax, hark back to the Revolutionaries' platform during the 1906-7 Socialism Debate, though it is equally possible that work on such legislation had begun under Chow Hsueh-hsi, who had shown a determination to increase government revenue with ambitious measures. The Director of the Tax Bureau, Yuan Yung-lien, [袁永廉] presented the bill on General Business Tax, which was to be modelled upon that of Japan; taking into account China's economic backwardness, the tax threshold was lowered from Mex \$500, as in Japan, to Mex \$300, levied at 0.2%.²⁴¹

Lu Ting [陸定] presented the bill on Death Duty, which he described as being "irrelevant to the poor"; the merits of Death Duty would lie in eliminating conflicts within families on inheritance rights, and in a Saint-Simonian *esprit* Lu suggested that the Death Duty will force the idle and dependent to work. Yet to prevent complications in its implementation, the Duty rate would not be heavy, at only 0.8% for estates valued at under Mex \$100,000, to be further lowered to 0.4% for estates valued at Mex \$1,000-10,000.²⁴² Lu Ting continued to present the bill on the Land Value Increment Tax, and justified it, as the Revolutionaries did in 1907 under Henry George's inspiration, that "in metropolitan areas the value of land in the proximity of water and land transport facilities have risen ten-fold, even hundred-fold, and the implementation of legislation that taxes land within reach of railways has already been done in Germany and Britain; in China, land in places like Tientsin, Shanghai, Hankow and Nanking have risen from Mex \$30 per acre to \$300-400 [...] and many

²⁴¹ *Zhongyiyuan Di Er Qi Changhui Huiyi Suji*, (Stenographic Records of the Proceedings of the Second General Session of the House of Representatives.) [眾議院第二期常會會議速記] no. 54 Peking: Zhongyiyuan Gongbaochu, [眾議院公報處] 1917-03-29, 21-22.

²⁴² Ibid., 23-24.

have become rich as a result. [...] The people will not be in agony as a result of levying this tax.”²⁴³ Lu Hsueh-p’u, [盧學溥] Director of the National Debt Bureau, presented the bill on Government Bonds the purpose of which was to boost the value of government-issued banknotes and to fund the disbandment of surplus armed forces.²⁴⁴ This was opposed by the Kuomintang MP Wang Pao-chen [王葆真] who noted that the Ministry had not presented a clear programme on how the funds collected would be spent.²⁴⁵

Feng Hsiang, [馮驤] another Finance Ministry representative, presented the bill on the Chinese National Insurance Board, noting that Germany has implemented since 1884 a policy of compulsory worker’s insurance which by 1917 covered more than two million people. Feng noted that Britain had also implemented since 1911 a highly effective National Insurance Act, promoted by David Lloyd George on the German model. Feng noted that some 259 insurance companies exist in China, and yet without a state-run national insurance concern similar to the Royal Insurance Company in Britain, these Chinese insurance companies were forced to insure themselves with foreign companies, resulting in “Mex \$20,000,000 flowing into foreign hands every year”; to stop such flows the government must set up a National Insurance Board. This was opposed by yet another Kuomintang MP, Ts’ao Chen-mao [曹振懋] who was sceptical of the ability of the Board to provide insurance for the whole country with a capital of a mere Mex \$5,000,000. He further stated that insurance is not something that the State should be involved in, unlike railways, electric lighting and water supply, which “are of great import to the people and cannot be operated by anybody other than the State”; Ts’ao queried whether the insurance board scheme had in mind its greatest objective “profit” [營利] or “public interest”; [公益] he further noted that the government had a long record of forcing purchases of Government Bonds and expressed the concern that the same would happen again with State-run insurance schemes. Ts’ao also suggested that offices of Director and Deputy Director of the Insurance Board would be used for private profit, as was usually the case for government-run enterprises.²⁴⁶ He was not rebuffed.

²⁴³ Ibid., 25.

²⁴⁴ Ibid., 17-18.

²⁴⁵ Ibid., 18.

²⁴⁶ Ibid., 27-29.

At the end of the day all of these bills were sent for further discussion in dedicated committees, and until the dissolution of parliament in June 1917 due to the controversy over China's declaration of war against Germany and Austria – or more precisely, due to a breakdown of consensus over the composition of a wartime “Cabinet of National Defence” [國防內閣]²⁴⁷ – nothing more was heard of the social legislation bills. Nor were they raised again when Liang Ch'i-ch'ao was Finance Minister from 17th July-22nd November 1917 in the Progressive Party cabinet, or during Tuan Ch'i-jui's “Anfu Club” [安福俱樂部] Regime, which lasted from December 1917 to August 1920. Parliamentary elections in mid-1918, which to begin with had a reduced franchise given increased property and tax qualifications, saw widespread vote-rigging and corruption; the election successfully reduced the Progressive Party seats in parliament to an insignificant number. The Anfu Club was a stable alliance of several parliamentary and bureaucratic factions,²⁴⁸ whose leading members were represented in the Club's Council, [評議會] which met at least twice a month to decide on all matters before they were presented in parliament, as well as dictating the content of the MPs' speeches.²⁴⁹ Although the Anfu Club accomplished very little economically, this was effectively China's equivalent to Japan's wartime “National Unity” [舉國一致] government, and as a military-backed, “democratic centralist” single-party regime, is typical of developmental-authoritarian states. As Section 3.6.2 shows, Tuan's regime did begin work on surveying, planning and financing industrial and agricultural projects across China;

²⁴⁷ Ting, Ven-kiang (Ding Wenjiang) [丁文江] & Zhao Fengtian [趙豐田], eds. *Liang Rengong Xiansheng Nianpu Changbian (Chugao)* (Extended Draft of the Annals of Mr. Liang Ch'i-ch'ao) [梁任公先生年譜長編] Beijing: Chung-hwa Books, [中華書局] 2010. 426.

²⁴⁸ This includes, amongst others, the military-backed Moderacy Club [中和俱樂部] and the finance and transport technocrats in Ts'ao Ju-lin's New Communications Clique. [新交通系] The average age of the Anfu MP was 43.5, or 7 years more than the average age of MPs in the First Parliament elected in 1912-3. 22.9% of MPs in the Anfu Parliament held degrees from traditional civil service examinations, which was higher compared to the First Parliament. “Some of these gentry who have civil service examination degrees were able to be elected because the revolutionaries were excluded from the Anfu Parliament elections. In terms of working experience, basically bureaucrats and members of the education and commercial sectors formed the majority. 98 of the MPs had been members of the Advisory Council during the Ch'ing Dynasty or the First Parliament, and had a degree of political experience. [...] This is why Anfu MPs were relatively conservative in their political stance, most of them being used to the status quo and against radical change.” (Yan, Quan. [嚴泉] “Baoshouzhuyi Yihui Zhengzhi de Changshi: Minchu Anfu Guohui de Lifa Yunzuo” (An Attempt at Conservative Parliamentary Politics: The Legislative Operation of the Early Republican Anfu Parliament) [保守主義議會政治的嘗試: 民初安福國會的立法運作] In *Zhonggong Tianjin Shiwei Dangxiao Xuebao*, [中共天津市委黨校學報] 2010 (1), 46.)

²⁴⁹ Xitang Yeshe, [西塘野史] *Anfu Bu*. (The Anfu Club) [安福部] Beijing: Rixin Shuju, [日新書局] 1920.20-21. Also “Benbu Pingyihui Zanxing Xize” [本部評議會暫行細則] on *ibid*, 22.

surely, establishing a firm grip over the Legislature would have been conducive to economic success, as well as being the first step to militarising the nation.

The Peking regime, which from August 1917 fought a long civil war with southern forces led initially by Sun Yat-sen, became heavily dependent on funds expropriated from Nishihara's Loans. The first of these was a loan of five million yen to boost the value of banknotes issued by the Bank of Communications; [交通銀行] this was negotiated by the Bank's President Ts'ao Ju-lin, [曹汝霖]²⁵⁰ who was on the Anfu Club Council and served as Minister of Communications from July 1917 to June 1919. The second loan of twenty million yen, also for the same Bank, was negotiated in September 1917 by Tuan's Finance Minister, Liang Ch'i-ch'ao, whose ambition was to be China's Sergei Witte; he also held respect for Matsukata Masayoshi. Liang hoped to rescue China's finances within a few years' time and propel the country towards industrialisation, by "establishing a systematic financial programme".²⁵¹ He was faced with an enormous deficit that racked up to Mex \$60,000,000 for the 1917 financial year, whilst foreign debt increased to Mex \$2,200,000,000 with the country repaying \$70,000,000 every year including interest. Rampant inflation resulted from uninhibited banknote issues which totalled some \$300,000,000, whilst the value of these banknotes fell to some 70-80% of their face value.²⁵²

As President of the Progressive Party in 1913, Liang had proposed a programme of debt restructuring, issuing Government Bonds, increasing import tariffs, abolishing internal tariffs (*likin*), [厘金] installing a new regime of agricultural taxes, setting up a Central Bank, and to take steps towards establishing a Gold Standard.²⁵³ As Minister of Justice in July 1913-February 1914, Liang had penned the Cabinet Manifesto, which declared its intention to "make reference to State Socialism and open up new forms of taxation to increase national revenue and indirectly deliver benefits to the people."²⁵⁴ Yet in late 1917 the civil war with the south had expended much of Peking's finances, with some 70% of the budget going to military expenditure. whilst demands for funds came from massively expanded

²⁵⁰ A graduate of Hosei University [法政大學] who had also studied at Waseda. [早稻田]

²⁵¹ Zhang, Pengyuan. (Chang, P'eng-yuan) [張朋園] *Liang Qichao yu Minguo Zhengzhi* (Liang Ch'i-ch'ao and Republican Politics) [梁啟超與民國政治] Changchun : Jilin Chubanshijuan, [吉林出版集團] 2007. 90.

²⁵² Ibid., 92.

²⁵³ "Liang Rengong yu Ge Zhengdang Shangque Zhengjian Shu", [梁任公與各政黨商榷政見書] in *Shibao* [時報] 1912-12-11, quoted in Ibid., 93.

²⁵⁴ "Zhengfu Dazheng Fangzhen Xuanyanshu", [政府大政方針宣言書] in *Yinbingshi Wenji*, [飲冰室文集] v.29, 114, quoted in Ibid., 97.

regional armed forces. By November 1917, Hupeh, [湖北] Shantung, [山東] Anhwei, [安徽] Chekiang [浙江] and Shensi [陝西] all ceased remitting taxes to the Central Government, and the revenue collectors Liang sent out to the provinces were sent back or even held hostage by local warlords. Negotiations stalled on the matter of increasing the import tariff – subject to approval by all powers under the Unequal Treaties. The repayment of \$4,000,000 worth of funds from the Boxer Indemnity, [庚子賠款] which should have happened after China had joined the Entente – with war declared against Germany and Austria on 14th August – did not materialise.²⁵⁵ Liang, in immense agony, resigned in November.²⁵⁶

Hence the pitiful situation where the State Socialists in the south, led by Sun Yat-sen, fought the State Socialists in the north under Tuan Ch'i-jui, with both of them vying for the leadership of a 'developmental dictatorship'.²⁵⁷ Tuan was mocked for "declaring outside China an un-fought war and fighting within China an undeclared war."²⁵⁸ Far from being a result of what Andrew Nathan would have called 'disintegrative behaviour' however, Chinese politicians should not be held solely responsible for this futile civil war. Japanese military elements had been involved in Chinese civil unrest starting with the war against Emperor Yuan Shih-k'ai in 1916. Vice Chief of Staff Tanaka Gi'ichi, [田中義一] the architect of what Frederick Dickinson called an "aggressive 'clandestine' China policy",²⁵⁹ instructed Lieutenant General Aoki Nobuzumi [青木宣純] "to incite opposition to Yuan in southern China", and arranged for Liang Ch'i-ch'ao to travel to the southern rebel areas via Japan.²⁶⁰

Later on, Tanaka objected to Nishihara's policy of aiding Tuan's Peking government against the south, believing that taking sides limited Japanese options. Tanaka's strategy to stir up unrest continued, and Aoki amongst others continued their support for the Kuomintang opposition to Tuan Ch'i-jui's cabinet. "Nishihara suspected that Aoki and civilian accomplices Kamei Rokurō [龜井陸郎] [...] were

²⁵⁵ Ibid., 100-102.

²⁵⁶ Ibid., 103.

²⁵⁷ Sun had declared in 1914 that his revolutionary regime would begin with a phase of military dictatorship, [軍政] followed by "political tutelage", [訓政] by which he meant a phase where civilians would be "politically trained."

²⁵⁸ "對外宣而不戰，對內戰而不宣。" Xu, Guoqi. [徐國琦] *Zhongguo yu Dazhan – Xunqiu Xin de Guojia Rentong yu Guojihua*. (China and the Great War – China's Pursuit of a New National Identity and Internationalization) [中國與大戰 - 尋求新的國家認同與國際化] Ma, Jianbiao, [馬建標] trans. Shanghai : Joint Publishing, [三聯書店] 2008. 199.

²⁵⁹ Dickinson, *National Reinvention*, 359.

²⁶⁰ Ibid., 129.

behind the [Kuomintang] refusal to sanction” Ts’ao Ju-lin’s December 1916 visit to Japan, and that Kamei “continued to operate the daily *Shuntian Shibao* [順天時報] with Japanese Foreign Ministry money as if it were the mouthpiece” of the Kuomintang. This is whilst Aoki “was rumoured to have been involved in an uprising” sponsored by the Kuomintang against Tuan in Chekiang. By mid-December 1916 Nishihara was urging Terauchi to recall Kamei and the Japanese officers ‘participating in revolution’ in China;²⁶¹ it is unclear why Terauchi could not act. The civil war in China practically became a proxy war between competing Japanese political forces, with Nishihara and his vision of pacifist Pan-Asianism and developmental China on one end, and Tanaka on the other, his goal being the creation of opportunities for military interference in China.

Yet there was an important attempt by Tuan’s regime to make use of the wartime economic boom. Apart from the extensive geological and agricultural surveys in response to the global rise in the prices of raw materials (see Section 3.6.2) – the Tuan regime established on 20th August, 1917, under the Ministry of Agriculture and Commerce, an “Economic Investigation Commission”, [經濟調查會] which Kaneko Hajime [金子肇] deemed to have been a deliberate emulation of its Japanese equivalent.²⁶² The object was to increase the Ministry’s capability to respond to the worldwide economic changes especially after the Allied Economic Conference of June 1916. (See Section 2.3.2) Indeed at the 7th meeting on 3rd November, 1917 it was decided that the Commission would publish reports on how China had begun to implement policies that conformed to the aims established by the Allied Economic Conference, despite the country not having been represented there; it was hoped that this would increase the chances of China being invited into the Economic Alliance in the not-too-distant future.²⁶³ The Commission was composed of four divisions – Division One being a secretariat which was also responsible for translating economic intelligence; Division Two for agriculture,

²⁶¹ Yamamoto Shirō, ed. *Terauchi Masatake Naikaku Kankei Shiryō*. [寺内正毅内閣関係史料] Upper volume. Kyoto : Kyōto Women’s University, [京都女子大學] 1985, 156. Quoted in Dickinson, *National Reinvention*, 167.

²⁶² Kaneko, Hajime. “Pekin Seifu no Sangyō Kōsei to Chūō-Chihō Kankei – Dai’ichiji Daizenki no Chōsa Shingī Kikan wo Sozai ni”. (Industrial Administration and Central-Local Relations under the Peking Government – A Study Based on Research and Deliberative Institutions during the First World War.) [北京政府の産業行政と中央・地方関係 – 第一次大戦期の調査審議機関を素材に] In *Kindai Chūgoku no Chūō to Chihō – Minkoku Zenki no Kokka Tōgō to Kōzaisei*. (Centre and Locality in Modern China – National Unity, Administration and Financial Policy in the Early Republican Period) [近代中国の中央と地方—民国前期の国家統合と行財政] Tokyo : Kyūko Shoin, 2008. 147.

²⁶³ “Jingji Diaochahui Di 7 Ci Kaihui Jishilu”, [經濟調查會第七次開會記事錄] in CASS-MHI.

forestry, fisheries and animal husbandry; Division Three for manufacturing, finance, transport, trade and tariffs; Division Four for mineral resources.²⁶⁴ Local branches were set up with an identical organisational structure, and an attempt was made to co-opt local figures of economic influence as honorary members – in Shanghai these included the banker and shipping magnate Yu Ya-ching [虞洽卿] and the textiles magnate Jung Tsung-ching. [榮宗敬]²⁶⁵ The Commission published twenty-one guidelines on the Government Gazette on how surveys on each industrial sector should be carried out. Yet except for Kiangsu, [江蘇] most provinces were slow to react to the Commission's pleas, and by mid-1918, branches were only established in 14 of them. Sabotage by local officials was common,²⁶⁶ and investigative work stalled as a result.

²⁶⁴ Kaneko, "Pekin Seifu", 149-150.

²⁶⁵ Ibid., 154.

²⁶⁶ Ibid., 151-153.

2.3 State Socialism, Phase Two

2.3.1 Walther Rathenau – Rationalization and Mobilization at the KRA

The advocacies of Otto von Bismarck and Adolph Wagner had taken root in Asia, but it would require the monumental shock of the First World War for State Socialism to emerge as a serious ideological contender if not the actual triumphant ideology – in Germany, the Soviet Union, and Japan. Much of that credit would go to Walther Rathenau, who designed Germany's war machine on State Monopoly Capitalist lines, and thereby took State Socialism to its Second Phase.

Walther Rathenau was helped by the fact that the German economy had by 1914 been almost totally cartelised, which paved the way for the relatively easy installation of state coordination above an already intensely organised and internally hierarchically-ordered industrial economy. W. O. Henderson describes how “there is no doubt that between 1873 and 1896 German industrialists had to cope with conditions far less favourable than those that had existed in the 1850s and 1860s”.²⁶⁷ This, combined with official encouragement “in the interest of industrial efficiency”, put German industry through a comprehensive cartelisation in the last decades of the 19th-century. Heavy industrial cartels set up in the aftermath of the slump of 1873 “gradually spread to other branches of manufacture, such as plate-glass, cement and chemicals. [...] Of the 275 cartels in operation in 1900 nearly 200 had been founded between 1879 and 1890. [...] The number of undertakings with a capital of over 10 million marks rose from 74 in 1886 to 229 in 1909. [...] By 1910 the ten largest colliery companies [...] produced nearly 60 per cent of the output of the coalfield.”²⁶⁸

The largest cartels included the Rhenish-Westphalian Coal Syndicate, the Steelworks Union, the German Potash Syndicate, the Dye Cartel (I. G. Farben) and two electrical company combines – AEG, and the Siemens-Schuckert group. “Horizontal Cartels” and “Vertical Cartels” were formed, the former “linking firms making the same products” whilst the latter united “firms engaged in different stages of production from the raw material to the finished article.” The four main types of cartel agreements comprised of – 1. Compacts to share the market; 2.

²⁶⁷ W.O. Henderson, *The Rise of German Industrial Power 1834-1914*. Berkeley and Los Angeles : University of California Press, 1975.176.

²⁶⁸ Ibid., 178-179.

Agreements that fixed prices; 3. Agreements fixing the total volume of production with quotas allocated to each member and 4. Agreements to share profits according to a predetermined formula.²⁶⁹ The process of railway nationalisation, subject to much resistance throughout the 1870s, was complete in Prussia by 1914. The final, logical step, taken by Rathenau, was for the state to form a single national combine out of all the cartels, thus completing the process of forming a State Capitalist Trust.

Walther Rathenau was the son of Emil Rathenau, founder of the electrochemical giant AEG which had begun in the 1880s with a partnership with Thomas Edison, marketing lightbulbs amongst other of Edison's inventions. Though of Jewish extraction, "Rathenau maintained an equivocal relationship with Judaism" and regarded "a Zionist state in Palestine as an Asian idea, not for him."²⁷⁰ Disappointment with his early experiences working in the AEG convinced Rathenau that "he was more interested in financing and strategic planning for an overall sector of industry", which at one point culminated in an attempt "to merge the steel giant Krupp and MAN."²⁷¹ By 1907 Rathenau understood, as Yang Tu did at the time, that the new "god of war" is "economic power".²⁷² Rathenau exhibited, throughout his life, imperialistic tendencies associated with his intense urge to assimilate into the German establishment. Yet he would demonstrate himself to be an original thinker, that is, within imperialist parameters.²⁷³

Soon after the outbreak of the First World War, Rathenau "does seem to have confronted [the war] with a great deal of skepticism [and] was apparently more worried and less enthusiastic in August 1914 than most men in his immediate milieu. He complained that the reasons for the war were obscure, that it could have been avoided, and that it was being conducted unprofessionally and irresponsibly."²⁷⁴

²⁶⁹ Ibid., 179-180.

²⁷⁰ Peter Starbuck, "Introduction", In *Writings on Economics and Management – Walther Rathenau*, vol. 1. Bristol : Thoemmes Press, 2003, vii.

²⁷¹ Ibid., viii.

²⁷² Krajewski, Marcus. *World Projects – Global Information Before World War I*. Trans. Charles Marcum II. Minneapolis and London : University of Minnesota Press, 2014. 143-144.

²⁷³ Like Nishihara, Rathenau had visited and researched extensively on the German colonies. In 1907, Rathenau together with State Secretary Bernhard von Dernberg visited Germany's South West Africa Colony and wrote two memoranda, one on the development of German East Africa, another on Southwest Africa. His deepest observation however was perhaps that "Germany needed to learn from the British, whose native colonial populations were happy and smiling". Such a contrast existed, Rathenau observed, partly because "the priority for the German when arriving in the country to work [was] to acquire an adapted walking stick for the primary purpose of meting out corporal punishment to the natives." (Starbuck, "Introduction", ix.)

²⁷⁴ Gerhard Hecker, *Walther Rathenau und sein Verhältnis zu Militar und Krieg* (Boppard am Rhein : Harald Boldt Verlag, 1983), 193-201. Quoted in Volkov, *Rathenau*, 124.

Germany was at the time unprepared for extended conflict;²⁷⁵ and as Gerald Feldman put it succinctly – Germany had “failed to plan for a long and total war”.²⁷⁶ “[M]ilitary intervention in civil affairs during the war, namely, the army’s management of the wartime economy [...] was neither anticipated nor planned by the army. Indeed, Germany’s prewar military leaders had clung tenaciously to the view that modern, industrialized states were incapable of fighting long wars.”²⁷⁷ Schlieffen and his successor, the younger Moltke, were convinced that Germany “could not sustain a long war”; the latter thought that “the chief economic functions of government during wartime were to relieve unemployment and prevent hunger, thus eliminating domestic unrest that might disturb the morale of the troops.”²⁷⁸

In spite of the chaotic state of affairs in the German government, or perhaps precisely because of it, Rathenau decided to intervene, first by “offering [his] services to the Chancellor”²⁷⁹ by recommending, just as Friedrich List did seventy years prior, “the idea of a European customs union [...] to be first established with Austria-Hungary and then extended to include defeated France and Italy together with various other European states, large and small”, whilst such a customs union became “a tool for enhancing Germany’s position as a world power”.²⁸⁰ Another letter led to a meeting with the Prussian War Minister General Erich von Falkenhayn, after which Rathenau was tasked with heading the Raw Materials Office (*Kriegsrohstoffabteilung*, or KRA) to be created under the War Ministry.²⁸¹ Markus Kraiewski writes that it was “Only subsequently did the Supreme Army Command begin to understand that the procurement of raw materials was ‘by far the most important question of the war economy, upon the solution to which the outcome of the war will decisively hang.’ ”²⁸²

Rathenau “immediately drew up a plan for replacing imported raw materials and using existing stocks in the most efficient ways”, the first step of which “included the registration of all the available resources [and] the establishment of a system

²⁷⁵ W.O. Henderson, “Walther Rathenau: A Pioneer of the Planned Economy”. In *The Economic History Review*, New Series vol. 4, 1951 (1), 98-108.107.

²⁷⁶ Gerald D. Feldman, *Army, Industry and Labor in Germany, 1914-1918*. Princeton : Princeton University Press, 1966. 7.

²⁷⁷ *Ibid.*, 6.

²⁷⁸ *Ibid.*, 7.

²⁷⁹ Kraiewski, *World Projects*, 144.

²⁸⁰ Shulamit Volkov, *Walther Rathenau – Weimar’s Fallen Statesman*. New Haven and London : Yale University Press, 2012. 121-2.

²⁸¹ *Ibid.*, 122.

²⁸² Kraiewski, *World Projects*, 145.

through which their usage was controlled by massive state-intervention whenever and wherever necessary.”²⁸³ Questionnaires were sent out to a “ ‘representative’ sample of nine hundred army suppliers already familiar to the War Ministry” and the “ ‘coverage’ of raw materials was interpolated to the entire German Empire.”²⁸⁴ The KRA was organized in the image of a spider web; at its organizational centre in Berlin, the “brain of the expanded war economy [...] only information arrives but no materials.”²⁸⁵ This is whilst “on the fringes of the empire, intercept or collection points are established, to classify, adapt, and store the ‘requisitioned’ goods. From there, they move to relay points, the three main transshipment stations at Hagen-Haspe, Frankfurt am Main, and Kassel, where the goods are separated according to basic categories to then be sent onward to the decentralized sites of fabrication.”²⁸⁶ In “early January 1915,” the staff of the KRA included “131 officials, 84 outside experts, and 651 employees”²⁸⁷ who were employed “in the numerous so-called war companies established during [Rathenau’s] eight months in office.”²⁸⁸ By the time of Rathenau’s resignation in March 1915 – largely because “the post did not prove a springboard for more influential positions”²⁸⁹ – the KRA boasted a staff of “two hundred men plus ‘five times as many’ working away from the central unit”,²⁹⁰ that is, in the war companies. Rathenau himself thought that the KRA “has reached the size of a mercantile world corporation”,²⁹¹ and indeed to other observers “it appears to be ‘the largest economic organization in world history.’”²⁹²

Germany’s supply of nitrates in the form of saltpeter, essential for gunpowder production, had been imported from Chile, and this source was cut off by the war. A nitrogen-fixation process was invented just in time by Professor Fritz Haber and Dr. Robert Bosch; Rathenau and Haber convinced the government to subsidise the construction of large plants to allow the mass utilisation of the chemical process, and even set up a “Bureau Haber” which later expanded into being the KRA’s Chemicals Section.²⁹³ On the Western Front, Rathenau’s machine kick-started the direct plundering of resources. The “exceedingly rich supplies” vital to

²⁸³ Volkov, *Rathenau*, 122-3.

²⁸⁴ Krajewski, *World Projects*, 146.

²⁸⁵ *Ibid.*, 148.

²⁸⁶ *Ibid.*, 148.

²⁸⁷ *Ibid.*, 146.

²⁸⁸ Volkov, *Rathenau*, 123

²⁸⁹ *Ibid.*, 134.

²⁹⁰ *Ibid.*, 123

²⁹¹ Krajewski, *World Projects*, 146

²⁹² *Ibid.*, 146.

²⁹³ Feldman, *Army*, 54-55.

the plans for the KRA in the form of “wool, rubber and nitrates”²⁹⁴ were ‘confiscated’ rather than ‘acquisitioned’ from occupied Belgium – a legal sleight of hand that avoided the issue of ownership.²⁹⁵ This is whilst Rathenau took a cautious approach for the Eastern Front. “Rathenau was aware of the economic potential of the eastern giant and thought that taking care of its financial and industrial needs, not without decisive and continuous military pressure to be sure, would sooner or later do the trick. Annexation in the east, then, should be kept at a minimum, he argued, so as not to alienate the local population and leave the door open to negotiation.”²⁹⁶

“To speed up the output and processing of raw materials”, Rathenau devised a new form of industrial organization called the ‘War-Corporation’,²⁹⁷ which according to him, was meant to be a compromise between an advancement of State Socialism by means of restricting commercial freedom and an attempt to encourage industrial self-administration.²⁹⁸ War Corporations were established for each industrial sector which provided a raw material important to the war,²⁹⁹ and each Corporation is “constituted for the most part of the market leaders of the respective branches”.³⁰⁰ Private entrepreneurs or representatives of cartels were also appointed to official posts within the KRA. When by late September 1916 the transport of coal from the mines to the factories of the Ruhr were becoming irregular, and signs were appearing that Germany once again faced a crisis in raw materials,³⁰¹ a Coal Adjustment Bureau was set up in the KRA, and a member of the Rhenish-Westphalian Coal Syndicate, Dr. Kruse, was placed in charge of it.³⁰² Thus control of coal passed back from the State to the cartels, whose power was in fact enhanced by the state-created monopoly. Indeed such appointments and franchises

²⁹⁴ Henderson, “Walther Rathenau”, 107.

²⁹⁵ Krajewski, *World Projects*, 146-7.

²⁹⁶ Walther Rathenau, *Politische Briefe*, (Dresden : C. Reissner, 1929), 48. Quoted in Volkov, *Rathenau*, 148. Rathenau, however, was not immune from an imperialist view of Russia. “In a memorandum sent to Bethmann Hollweg and Ludendorff as early as August 30, 1915,” Rathenau proposed breaking up the Entente by “forcing Russia to its knees”, claiming that “Russia had loved all its conquerors” and that “it would eventually love us, if we conquered large parts of the country for long enough and offered the Russians a ‘bearable peace’” Volkov described how, to this letter, “Ludendorff replied immediately and at great length. It may have been Rathenau’s blunt style that attracted the general”. (Rathenau, *Politische Briefe*, 47. Quoted in Volkov, *Rathenau*, 147.)

²⁹⁷ Henderson, “Walther Rathenau”, 107

²⁹⁸ Lutz, *Fall of the German Empire II*, 84. Quoted in Feldman, *Army*, 49.

²⁹⁹ *Ibid.*, 150

³⁰⁰ *Ibid.*, 151

³⁰¹ Feldman, *Army*, 256.

³⁰² *Ibid.*, 257.

for individual firms were expected by the industrialists as rewards in the place of dividends and direct profits.³⁰³

War Corporations were publicly-traded companies which remained “to the greatest extent”³⁰⁴ privately held, with their own board of directors, general assembly and administration, whilst amounting to “a daughter company of the KRA”.³⁰⁵ As Rathenau put it, the War Corporation had a hybrid form that was something “midway ‘between a joint-stock company... and a bureaucratic organisation’³⁰⁶ [...] owned jointly by the government and the owners of the raw materials which they handled.”³⁰⁷ Three differences existed between the War Corporations and ordinary joint-stock companies. “First, each corporation had a planning committee (composed of officials and members of local chambers of commerce) which advised the directors on production targets. Secondly, the appropriate government department could veto decisions of the directors and the planning committee. Thirdly, the corporations were not allowed to distribute profits.” Henderson also explains that “The functions of the corporations varied. Some were distributing agencies. They used compulsory powers to collect sequestered raw materials which were then passed on to the factories where they were most needed. Others owned plants and were themselves engaged in manufacturing.”³⁰⁸ On the other hand, intermediary organisations known as Committees of Appraisal and Distribution were set up between the War Corporations and the State, and were also composed of bureaucrats and members of chambers of commerce; Rathenau described these committees as “an economic innovation which may be destined to become generally accepted in future times”³⁰⁹ – that is, an innovation to constrain the highly oligopolised German economy.

Contemporary descriptions of the KRA in the Japanese press, which would have influenced Nishihara’s thinking on industrial reform, concentrate on the efficiency and comprehensiveness of the organisation of Germany’s resources. One book from April 1916, written by the educator Yuhara Motoichi [湯原元一] and

³⁰³ Ibid., 49.

³⁰⁴ Ibid., 150

³⁰⁵ Krajewski, *World Projects*, 15

³⁰⁶ Walther Rathenau, *Gesammelte Schriften*, (S. Fischer Verlag, 1925) vol. 5, 41. Quoted in Henderson, “Walther Rathenau”, 107.

³⁰⁷ Ibid., 107.

³⁰⁸ Ibid., 107.

³⁰⁹ Lutz, *Fall of the German Empire II*, (London : Octagon Books, 1969) 84, quoted in Feldman, *Army*, 49.

published by the cultural-economic organisation, the Central Association in the Service of Virtue, [中央報德會] claimed that such methods conformed well with the highly regimental and non-individualist “national character” of the German people.³¹⁰ The implication was that Japan should look up to this example, even though it was at war with Germany. The book was not filled only with praises for German mobilisation, however; it noted certain nuances, that the KRA’s methods were “in fact the implementation of an extreme form of State Socialism”,³¹¹ and that such State Socialist methods were meant to be a counter-balance on the unrestrained price increases on the part of the industrial cartels created in the run up to the war.³¹² The book also noted the establishment in Autumn 1915 of an Imperial Price Examination Agency with branches in all German towns of a population of 5000 or more with powers to inspect the account books of shops and maintain stable prices, whilst on the other hand coercing local public organisations into forming consumption cooperatives to which merchants were ordered to sell their products at reasonable prices. A steep fine of 300 marks and imprisonment of up to 1.5 years was announced in September 1915 for merchants who manipulated prices, while a special wartime profits tax was already in force;³¹³ this tax “forced corporations to put fifty per cent of their profits into a reserve fund subject to future taxation”, but the law was filled with loopholes and did not prevent “the payment of large dividends or the building up of great silent reserves.”³¹⁴ State Socialist measures to check the profiteering of industrialists ended up aiding their cause.

Yuhara would certainly not have been aware of the true extent of severe problems that confronted the KRA’s planned economy, information on which would unlikely have been available even to Nishihara – who became an ardent advocate of KRA-styled reforms for Japan. From the beginning the industrialists protested against the terms of the War Ministry’s contracts, which were deemed “insulting” – the War Ministry on one hand set an extremely lucrative fixed profit margin of 5-10% on the total cost, and on the other imposed heavy fines and even imprisonment for the miscalculation of costs or late delivery.³¹⁵ The industrialists were also angry with the War Ministry for suddenly cancelling orders for Thomas process steel for

³¹⁰ Yuhara, *Senji*, 1-29.

³¹¹ *Ibid.*, 52.

³¹² *Ibid.*, 43.

³¹³ *Ibid.*, 50-51.

³¹⁴ Feldman, *Army*, 63.

³¹⁵ *Ibid.*, 60-61.

shells, and concentrating orders on the harder Martin process steel, whilst orders for non-military steel items such as railway tracks were not reduced; all this exceeded their capacity to produce. Back in November 1914 the industrialists had “blackmailed” the army into paying “a scandalously high price for Martin steel by threatening to break off negotiations”, whilst German steel was being shipped to Britain and France via Switzerland.³¹⁶ By August 1916 the industrialists had gained the audacity to submit a memorandum to the War Minister accusing him of not doing enough to promote production; the document hit hard at a time when the British had begun a major offensive on the Somme that exposed the munitions shortages on the German side. The result was the Hindenburg Programme, aimed at doubling production in certain sectors by summer 1917, which Feldman called “a gamble in which the nation’s finances and resources were recklessly exposed to exhaustion on the basis of unfounded expectations and in defiance of [...] experienced experts in the War Ministry.”³¹⁷ Rathenau estimated in December 1917 that only 60% of the programme could be fulfilled by summer 1917. As it was the case with many examples of planned economies throughout the 20th century, Hindenburg’s production quotas deviated from, or even “had very little to do with either sound military planning or rational economics”,³¹⁸ and in being “as much determined by the industrialists’ desire for profit [...] as it was by the desire for victory in the war of production”,³¹⁹ it exhibited the true monopolistic capitalist colours of State Socialism.

The problems were compounded by heavy inflation in all aspects of the economy. Despite Rathenau’s pleas as early as August 1914 for the War Ministry to control food in the same way as raw materials were being controlled, he was told that “this lay completely outside his sphere of authority”,³²⁰ By 1916 there was “a marked increase of food riots, disturbances before food stores, and small strikes” with growing discontent reported – as in Japan – “amongst housewives and workers”.³²¹ In April and late June 1917 “serious strikes and food riots broke out in the Ruhr due to the food shortage and anger over the more satisfactory food situation of other areas, particularly Berlin.”³²² The Supreme Command (OHL)

³¹⁶ Ibid., 158, 157.

³¹⁷ Ibid., 152, 154.

³¹⁸ Ibid., 266, 154.

³¹⁹ Ibid., 161.

³²⁰ Ibid., 99.

³²¹ Ibid., 108.

³²² Ibid., 362.

became “convinced that strikes and coal riots would harm production more than the losses that might be incurred through limitations on industry’s coal supply.”³²³ As a result it played into the hands of the profiteers and became “midwife to inflation”, with mine owners becoming “specialists in blackmailing the government into permitting price increases by threatening to refuse to give wage increases”, whilst worker strikes enabled the mine owners “to secure military support for their price demands.”³²⁴ Feldman concluded that the Hindenburg Programme “had created an orgy of profit-making.”³²⁵ Alfons Horten, a government mining expert with expert knowledge on cost accounting was put in charge of reviewing the prices of raw materials, and by comparing the prices of Martin and Thomas steel discovered the “unjustified price” of the former; when the KRA asked six of the largest firms to state their costs, the request was refused.³²⁶ Investigations into steel profiteering were halted, and in early 1917 Horten, who had offended the industrialists, was dismissed by the Supreme Command.

2.3.2 Walther Rathenau’s State Socialism

Compared to the oblivion to which Nishihara’s manifesto was condemned, Rathenau’s works on State Socialism sold well and elicited widespread responses, if only much of it being negative. His main works were - *In Days to Come* (February-June 1917) – 60,000 copies sold; *The New Economy* (January 1918) – 30,000 copies; *The New Society* and *The New State* (both 1919). During the later half of the First World War, Rathenau became “the most widely read and the most passionately discussed German author”³²⁷ In short, “Rathenau believed that capitalism was doomed.”³²⁸ Many of Rathenau’s advocacies during this period carried a less-than-faint hint of the socialism of the Saint-Simonians a century before. In their magazine, the *Producteur*, the Saint-Simonians laid out “the premise that society demanded new direction, that only a rejuvenated and redirected economy would address the problems induced by war, poverty and social dislocation”, and “saw in the application of technology the way forward for this society. They spoke of ‘association’ rather than competition as a new approach to industry and society, one

³²³ Ibid., 265.

³²⁴ Ibid., 388.

³²⁵ Ibid., 385.

³²⁶ Ibid., 157-158.

³²⁷ Henderson, “Walther Rathenau”, 98.

³²⁸ Ibid., 103.

in which people joined together for the public good.”³²⁹ Both Rathenau, and as we shall see, Nishihara, echoed these ideas.

According to W. O. Henderson, Rathenau’s economic policy “was based upon four principles which were in his opinion ‘**a decisive step towards State Socialism**’. First, essential raw materials were brought under state control. Their exchange was no longer left to the free play of economic forces but was subordinated to the public interest. Secondly, stocks of raw materials were built up by purchases from neutral countries and confiscations in occupied territories. [...] Thirdly, raw materials which were in short supply were replaced as far as possible by materials (or substitutes) that could be produced in Germany.”³³⁰ The fourth principle was in the organization of the War Corporations. A strong hint of Friedrich List’s influence can be found in Rathenau’s thinking. “After the World War Rathenau argued that Germany should profit from the experience of the blockade to reconstruct her economy on the basis of national self-sufficiency (*Binnenwirtschaft*). [...] If Germany’s income from exports declined she would – unless income from investments abroad and from services to foreigners increased – have to reduce her purchases from abroad and it would be for the State to see to it that only essential commodities were imported. Native raw materials should be used even if they cost more than foreign commodities.”³³¹

Yet Rathenau had more than material distributional considerations in mind. “Beyond its actual horrors,” explains Rathenau, “this war is a manifestation of a deep spiritual crisis, **a turning point on humanity’s road towards a higher realm**”.³³² Rathenau “believed that industrial societies were lacking in any spiritual or cultural values” and “He was ever seeking a solution of the problem of how the masses herded in factories, mines and offices could find a spiritual purpose in life which would give real significance to their economic activities.”³³³ This lack of culture, as he saw it, was “A fundamental weakness of the machine age”.³³⁴ The worker is “Helpless in a world where fierce competition in the factory had replaced neighbourly co-operation on the land, [...] could now express himself not as an individual but only as a member of a group such as the State, a Church, a trade union

³²⁹ Davies, *Pereire*, 45. Emphasis mine.

³³⁰ Henderson, “Walther Rathenau”, 107.

³³¹ Ibid., 106. Emphasis mine.

³³² Volkov, *Rathenau*, 165. Emphasis mine.

³³³ Henderson, “Walther Rathenau”, 102.

³³⁴ Ibid., 103.

or a club.”³³⁵ Rathenau, in a lecture given on December 18th, 1916 which received “Gustav Schmoller’s unfavourable reaction”,³³⁶ prophesied that “Germany would depend upon a new kind of economy, in which luxury would first be limited and then replaced by ‘new sources of joy and pleasure’ – ‘more noble pleasures,’ to be sure.”³³⁷

In a sentiment that echoed the Saint-Simonians, Rathenau envisioned a new economy where there is no place for the idle and where everyone is a producer – where “all ‘healthy and strong men’ would contribute to useful production and not be “wasted” neither as “students of the history of art” nor as small retail shopkeepers, “selling beer and tobacco.”³³⁸ “Rathenau hoped for a country less noisy and less colourful, characterized by labour that was ennobled through self-sacrifice, reaching for ‘the eternal, the absolute, the generally valid,’ seeking and achieving both social justice and civil freedom.”³³⁹ “Industry’s other responsibility to society was to produce goods that were essential to providing a quality life, not unnecessary luxuries”³⁴⁰ The need to provide the post-war state “with sufficient quantities of needed resources” requires an end “to both inherited wealth and inherited poverty”, and Rathenau foresaw that “a number of large-scale monopolies, under the sole supervision of the state, would be established to serve as its solid foundation.”³⁴¹ Rathenau’s book, *In Days to Come*, was “begun before the war and slowly completed after his resignation from the War Ministry, was published in March 1917”, and –

“offered a view of an alternative future of a **communally oriented national life**, without falling into what Rathenau considered a socialist, materialist trap. Socialism, he explained, was based on ‘complaints and accusations’ and included no ‘luminous goals’ Together with capitalism, it too **must be transcended** [by] men whose life was ‘based upon a genuine participation in the world and genuine responsibility to the world’ [...] Rathenau envisioned a collective economic order with strong centralized control, a society that eschewed material values, luxury, and an ‘empty life of amusement,’ seeking spiritual integrity – as he had argued before – through

³³⁵ Ibid., 103.

³³⁶ *Walther Rathenau – Gesamtausgabe*, V2, 1598-1600, and note 2 on page 1599. In Volkov, *Rathenau*, 138.

³³⁷ Rathenau, *Gesammelte Schriften*, vol. 5, 79, 90-91. Quoted in Ibid., 138.

³³⁸ Ibid., 138.

³³⁹ Ibid., 138.

³⁴⁰ Starbuck, “Introduction”, xi.

³⁴¹ Rathenau, *Gesammelte Schriften*, vol. 5, 88-91. In Volkov, *Rathenau*, 138.

solidarity combined with a deep sense of responsibility. The state that hovered above such a society was to take care of the well-being of its citizens; it should be a true 'people's state', an 'organocracy,' as he called it, stable and dynamic at the same time, incorporating 'absolute and ethical ideals,' and finally 'dethroning mechanization' and 'elucidating the divine elements in the human spirit'.³⁴²

Rathenau recognises in his book the existence of a proletarian class, confined by "walls of glass, transparent and unclimbable [...] beyond which lies freedom, self-determination, wellbeing and power", and agrees with the orthodox socialist that in modern capitalist society, "under the semblance of freedom and self-determination" exists "an anonymous subjugation, not of man by man", but of one class by another, constituted like nations.³⁴³ Yet the greatest plight that Rathenau saw in the workers was not poverty and disease, but of their lack of cultural means of entertainment and refinement. "Self-evident and easily performed is the duty of abolishing all the more disastrous forms of poverty and want. [...] But this task is so simple, so mechanical, and despite its lamentable urgency so trivial, that it belongs rather to the domain of minor civics than to that of ethics. [...] Equality can never realise the earthly demand of our spiritual life."³⁴⁴ Rathenau instead wanted a society that "would emphasize honesty, morality, frugality and freedom: but only on [his] terms, as people's leisure time activities would be on the lines of German tradition of folk culture and the classics in art, culture and music."³⁴⁵

It goes without saying that Rathenau's views were petty bourgeois, even though he attacked the rich and their inherited wealth; most ironically perhaps for Rathenau's own background, he regarded the entrepreneur "as a parasite that exploited and profiteered at the expense of working people."³⁴⁶ Probably due to his experiences at the KRA with blackmailing by industrialists intent on increasing prices, Rathenau writes that the "assignment of uncontrolled power to the individual monopoly is essentially immoral".³⁴⁷ So is the fact that "the racecourses [...] are packed with well-clothed and complacent young men, who in a single hour

³⁴² Volkov, *Rathenau*, 154-155. Emphases mine.

³⁴³ Rathenau, *In Days to Come*, 55.

³⁴⁴ Ibid., 50, 52.

³⁴⁵ Starbuck, "Introduction", x.

³⁴⁶ Ibid., xi

³⁴⁷ Walther Rathenau, *In Days to Come*. Eden and Cedar Paul, trans. New York : Alfred A. Knopf, 1921. 104.

lavish more money upon a horse or a dancer than a poor student, a poet, or a musician requires for a year's support", or that "a young woman who has married an old man for his money, and who is speedily widowed [...] apes a princess in her expenditure."³⁴⁸

On the other hand Rathenau claimed that his book "strikes dogmatic socialism to its very heart", criticising socialism as "an outgrowth of the material will; its centre is the distribution of earthly goods; [it] fights for institutions [and] remains at the level of politics. It can furnish criticism, can eradicate certain evils, can win rights. But it will never transform our earthly life, for the power to effect this transformation is given only to a philosophical outlook, a faith, a transcendental idea." It is ironic therefore that Rathenau, who believed that "all earthly activities and aims find their justification in the expansion of the soul and its realm",³⁴⁹ proposes for the amelioration of the human condition and for the "transcendental task" that is "to promote the growth of the soul",³⁵⁰ a solution that involves precisely institutional change at which centre is the rational distribution of earthly goods to eradicate social evils – no less. The solutions which he offered to the workers' lack of cultural refinement, "self-determination" and "self-responsibility" was a form of socio-economic organisation that would be even more austere than the present – one where monopoly industrialists certainly would have no place – yet it would be one by which society could strive towards "the goal of human freedom".³⁵¹

Lamenting that socialism has "degenerated into greed", Rathenau expresses his frustration with the socialist movement, to which his main objection was the "enormous increase in the spirit of reaction" that its activities have caused. The "degeneration" of socialism into "greed" has rendered the bourgeoisie "terror-stricken" with the result being that "the forces of reaction were redoubled; the reactionaries were enabled to laugh [...] at those who strengthened the throne and the altar while extolling the communist commonwealth."³⁵² Rathenau's distaste for socialism's fixation with "the problem of material goods" and his insistence on the transcendental does not make him per se an anti-socialist, but demonstrates the utopian and ethical motive in his unique brand of socialism, which contrasts sharply

³⁴⁸ Ibid., 107.

³⁴⁹ Ibid., 13.

³⁵⁰ Ibid., 50.

³⁵¹ Ibid., 60.

³⁵² Ibid., 58.

with the historicism and materialism of the orthodox Marxist. Rathenau's socialism, ironically enough for his criticism of the spitefulness of the socialist movement, is based on a disdain for the wealthy, their luxury and waste; where he speaks of constructive methods of increasing wealth for the masses, he falls back upon Saint-Simonian utopian notions of universal increases of productivity by vague notions of coordinated industrial strategy and methods of coercing the idle to work, rather than solutions based on calm analysis and serious economic calculation which Rathenau would certainly have been capable of.

"Europe has fallen into sloth., We must cast off this lethargy [...] we shall fearlessly march for a space along the road leading towards socialism, while rejecting its ultimate goals".³⁵³ Yet Rathenau thought that "the nationalisation of the means of production has no economic significance", ³⁵⁴ despite arguing that for "certain lucrative enterprises of a monopolistic character", the state should be "entitled to claim by far the largest proportion of all profit over and above a very moderate return." ³⁵⁵ Rathenau answers the question of "What new capitalistic forms will replace private enterprise" by suggesting that a new form of "autonomous enterprise" already exists between public and private enterprises. Such autonomous enterprises take "the impersonal form of the joint-stock company", where "no one is a permanent owner", implying that "the enterprise assumes an independent life, as if it belonged to no one" and might even "come to own itself". Having taken on "an objective existence" the enterprise "becomes transformed as it were into a trusteeship, [...] an institution resembling the state" which could then distribute its ownership, in the form of shares, among the employees, whilst "the right of ownership can be vested in official positions, universities, town councils, governments"; at which stage "it has a right to expect that in case of need the state will provide it with funds" and even "wish and demand that autonomous enterprises [...] take over and to invest surpluses from the state treasury." ³⁵⁶

Rathenau detects, in a fashion similar to what we shall see in Nishihara, a "commercial system" that is "cryingly in need of reform", and calls for the elimination of "superfluous carriage of goods to and fro, the immoderate multiplication of shops, [and] the excessive number of middlemen and profit takers

³⁵³ Ibid., 58.

³⁵⁴ Ibid., 72.

³⁵⁵ Ibid., 114.

³⁵⁶ Ibid., 120-122.

at various points” that forces the prices of products to be “enhanced twenty-five [...] or sometimes even a hundred per cent, on the way from the producer to the consumer.” He condemns the “millions of working days [...] wasted year after year in so-called business journeys” by salesmen and suggests that they “could be saved if the wholesalers would jointly maintain a sample store in every large provincial town, a place which could be visited three or four times a year by every retailer in the neighbourhood.” Like Nishihara, Rathenau also supports land reform and agricultural collectivisation, by suggesting that “All inheritance over [...] a moderate amount of landed property should accrue to the state”, with its upper limit “standardised by the economic reform of agriculture” in the direction of abolishing great landed estates in favour of “large scale agriculture [...] secured by cooperative farming” under a “gradual transition to state ownership.”³⁵⁷ Rathenau describes in Saint-Simonian terms a country where such a new economic order has taken shape, characterised by total employment, free transport, the development of the arts, and plentiful supplies of low interest state capital for the middle class entrepreneur –

“all the energies of the land have become active; none but invalids and the elderly are idle. The import and manufacture of needless, ugly, and noxious products have been reduced to a minimum [...] so that the production of necessary goods has been notably cheapened and increased. [...] Whilst the general wellbeing of the country is doubled or trebled by **the setting of idle hands to work and by the rationalisation of production**, the accumulation of private wealth is checked. [...] **First of all, the state grows rich beyond imagination.** [...] The state can abolish poverty and unemployment; [...] the whole transport system in the hands of the state would be made free. [...] The state becomes the guardian and administrator of enormous means for investment [...] place[d] at the disposal of all productive occupations [...] A new middle class comes into existence through the national financing of such medium-scale enterprises as it is expedient to maintain side by side with the large-scale industries. The influx of nationalised capital lowers the rate of interest in industrial undertakings throughout the country and facilitates the establishment of enterprises of moderate proportions. At the same time the state is enabled to liberate intellectual labour from the mechanism of

³⁵⁷ Ibid., 116-117.

material industry [...] The artist, the thinker, and the man of learning, grow independent of the decrees of a market..."³⁵⁸

To bring such an economy into existence will require drastic, decisive action. Rathenau judges that "Consumption [...] is not an individual affair but a communal affair. [...] Luxury and exclusive appropriation are subject to the communal will, and can only be tolerated in so far as they do not prevent the satisfaction of any immediate and genuine want." There needs to be "a method for regulating consumption" in the form of "a widely extended system of taxes upon luxury and immoderate consumption" which "may have to be practically prohibitive". Noting that "in exchange for a string of pearls we must send abroad the total yield of the labour of five German working-class families during a period of ten years", Rathenau declares that "jewellery should be subject to a heavy annual taxation in addition to an import duty", while "Tobacco and spirits, costly textiles, furs, plumage, precious stones, and, above all, manufactured articles of luxury, must be heavily taxed, to the extent of several times their original cost of production." Rathenau concludes that "the equalisation of property and income is prescribed both by ethics and by economics", and that "in the case of all superabundant income and property the state has a claim to anything beyond a necessary minimum." In the coming economic order "There will be no place [...] for the monopolist, the speculator, or the inheritor of great wealth." The new economic order must also accomplish the task of levelling the social classes, by restricting "the right of inheritance, in conjunction with the equalisation of popular education at a higher level."³⁵⁹

It is hardly conceivable that the bourgeoisie would have been any less "terror-stricken" by Rathenau's advocacies than they were by the socialist movement. Despite the mass of self-contradictory statements in his work, the crux of Rathenau's ideas lies precisely in his attempt to overcome a sick, malignant capitalism with an even greater dose of rationalization; but having declared that "the effects of such measures will be greater than those of any other revolution known to modern history",³⁶⁰ Rathenau has no answers to the crucial question of by whom and how the new economic order was to be put in place. Yet he may be excused, for the publication of the *In Days to Come* in early 1917 preceded the events in Russia.

³⁵⁸ Ibid., 125-126. Emphases mine.

³⁵⁹ Ibid., 111-114.

³⁶⁰ Ibid., 118.

Rathenau soon found his radicalism more-or-less eclipsed by that of the Bolsheviks. As we shall see, Rathenau's desire to transcend both capitalism and socialism was to find common ground with Nishihara, but in actual practice the advocacies of both men fell flat upon State Monopoly Capitalism. In *The New Economy* published in January 1918, which was "as much about the war as it was about a 'new economy – in war or in peace [...] hastened by the war'",³⁶¹ Rathenau restates his position that "The economy is no longer a private matter but a communal one."³⁶² As Shulamit Volkov describes –

"In the coming 'transitional period', Rathenau prophesied, Germany was bound to feel the scarcity of all major natural resources, as well as capital and labor. [...] Neither communism nor socialism could save the day. [...] The only solution was **a new kind of 'organized economy'**, a system combining the benefits of a free market and a planned 'scientific order' in the postwar world. 'Only by instituting such a system could Germany achieve the required rise in productivity; only thus could the standard of living of its workers be kept at a civilized level; only in this way would it be possible to reach the correct measure of centralization, the correct size of the most efficient factory, and the most effective level of government supervision and interference.' "³⁶³

Rathenau's State Socialism also carried with it a hint of Guild Socialism, and seemed to hark back to the arts & craft movement of William Morris, who believed that the modern worker has lost the sense of pride that artisans possessed of their craft. "Rathenau rejects Taylor's 'time study' as he believed that a 'fair day's work' resulted when workpeople produced goods using their skills to the fullest, giving them pride and satisfaction. However, he agreed with Taylor's contemporary Henry Gantt that industrialists should be elevated as political leaders as the 'new power', thus eclipsing the 'old power' of the landed aristocracy."³⁶⁴

³⁶¹ Volkov, *Rathenau*, 159.

³⁶² Walther Rathenau, *Gesammelte Schriften*, vol. 5, 181. Quoted in *Ibid.*, 159.

³⁶³ *Ibid.*, 160-161. Emphasis mine.

³⁶⁴ Starbuck, "Introduction", xi. Yet, as we shall see, Nishihara's rendering of Rathenau's model exposes the extent of real power that would have been given to industrial bureaucrats and the leading industrial capitalists under such Developmental Authoritarianism – "On the basis of the war experience, Rathenau further explained, the post-war system ought to be organized not simply from above, by the iron hand of the state, but through a network of sectoral and professional associations organized from below [as] a sort of modern guild structure [which] would turn a cold and efficient system into an organic body, joined by one will, sharing a single set of values, moving forward without undue bureaucratization, enjoying both self-determination and self-management. Free competition ought to be restricted [...] A competent bureaucracy would be no hindrance to growth since all would join forces to serve the interests of a single, united community. This new system [...] was bound to come about in any case. It had only to be helped

It would have been difficult to find a role for the market in the society that Rathenau envisioned, and the coexistence of a bureaucratically-coordinated economy with free market conditions would be neither possible nor desirable. Yet Rathenau struggled hard to put his economic advocacies within the framework of a market economy. "Rathenau believed that monopolies should be nationalized, and although he promoted free trade he also believed in cartels to enable industry to have stability and be able to obtain an acceptable level of reward. This security for the industrial enterprise would in turn provide the workers with the social supports of housing, schooling, wage guarantees, sickness and accident benefit, and pensions."³⁶⁵ During the First World War the German government, in the course of mobilizing labour, ended up succumbing to many of the demands of the socialist reformists. The logic was that "if war was not to be transformed into revolution, the governments and ruling classes", to which Walther Rathenau certainly belonged, "would have to demonstrate a high degree of adaptability."³⁶⁶ Gerald Feldman argues that "the entire pattern of wartime political and social relations moved in [the] direction" of parliamentarization and collective bargaining, to the extent where "the political and social equality of the working class was tentatively won in war and finally sanctified in defeat."³⁶⁷ Walther Rathenau, in his pamphlets, "recognized the need for fundamental change to enable the integration of major industries with society. Industrial enterprises would be owned by the workers through trusts, which managers would run on their behalf and with their co-operation and involvement."³⁶⁸ Just as Nishihara saw fit for production cooperatives to assume the functions of local government, "Rathenau also believed in a role for trade unions, as the managers of municipal services."³⁶⁹

The tragedy would therefore be that Rathenau believed that his advocacy of a "managerial society" was "based upon moderate reforms"; rather, he had in fact put forward a radical vision of State Socialist transformation of Germany and its European neighbours to be incorporated into the future customs union. And much as it would have been the case for Nishihara, Rathenau's prescription came to be

along in order to be established as quickly, as painlessly, and as smoothly as possible." Walther Rathenau, *Gesammelte Schriften*, vol. 5, 231. Ibid., 161.

³⁶⁵ Starbuck, "Introduction", xi.

³⁶⁶ Feldman, *Army*, 4.

³⁶⁷ Ibid., 4-5.

³⁶⁸ Starbuck, "Introduction", x. This effectively presaged what became the post-WWII Yugoslav model of workers' industrial management.

³⁶⁹ Ibid., xi. Despite showing signs of misogyny elsewhere, Rathenau "believed that the state should pay women to be mothers at home, on a graduated scale dependent on their performance."

“rejected by his right-wing opponents as being aligned with Marx’s ideas, while his left-wing opponents objected to free-market democracy and businesses not being [already] managed by workers.”³⁷⁰ “The right wing-oriented Central Association of German Industrialists asked its members for donations in order to finance a campaign against ‘Rathenau’s state socialism,’ and even its competitor, the liberal Hansabund, came out fiercely against the ‘Rathenau system.’ Representatives of the lower middle class, artisans and small shopkeepers, were also provoked by Rathenau’s proposals.”³⁷¹ Gustav Schmoller, never in accord with Rathenau, argued that “Rathenau’s intentions were noble [...] but he was not sufficiently familiar with the economic resources of the Prussian state, so that his reform plans were unfit for the task, adding up in the end to no more than a utopia”, whilst the sociologist Ferdinand Tönnies wrote that Rathenau’s “trust in human nature was admirable [...] but it was unsupported by scientific observation.”³⁷² Nishihara’s problems, as we shall see, would echo those of Rathenau.

³⁷⁰ Ibid., xii

³⁷¹ Volkov, *Rathenau*, 161-162.

³⁷² Ernst Schulz, “Zur Rathenaus Hauptwerken,” in Rathenau, *Gesamtausgabe* II, 564. Quoted in Ibid., 156.

2.4 State Monopoly Capitalism and Total War Mobilisation

2.4.1 *Lenin and Bukharin on Rathenau's State Socialism*

This section details the transformation of Rathenau's State Socialism into the Proletarian War Communism of the young Soviet Union. The transformation is not as radical as it might seem, and in fact, as this section will demonstrate, is more of a rhetorical change than a change in substance. As David Lockwood argues, Rathenau had "provided a philosophical basis for an enthusiastic endorsement of state intervention".³⁷³ The question asked by Lenin, Bukharin and other Marxists is what kind of state, and controlled by whom. Once that question has been resolved via a revolution, the logic of state intervention in a highly organised and cartelised capitalist economy – or what Bukharin calls a "State Capitalist Trust" – carried on as it did under "bourgeois rule". W. O. Henderson writes that "Few outside the socialist camp contributed more towards the theory of the capitalist economy than did Walther Rathenau [...]. Events have shown that Rathenau's prophecies were often right, and that many of his unorthodox proposals were not so impracticable as they first appeared. [...]"³⁷⁴ Rathenau's prophecies of a new economic order arising from total mobilisation and rationalisation were first put in place not in Germany, but in the infant Soviet Union. Krajewski argues that the "the roots of the planned economy ultimately reach back obliquely across the KRA to its initiating projector Walther Rathenau",³⁷⁵ adding that, "In the second half of the war, contacts [between the Germans and the] Russian leadership grow stronger. Lenin and his economic advisors Nikolai Bukharin [...] and Yuri Larin prove to be precise readers of Rathenau's war economy concepts."³⁷⁶ Ironically, both Lenin and Bukharin started

³⁷³ David Lockwood, "War, the State and the Bourgeois Revolution." In *War & Society* vol. 25, no. 2, 2006 (10), 53-78. 63.

³⁷⁴ Henderson, "Walther Rathenau", 98-99.

³⁷⁵ Krajewski, *World Projects*, 181-182.

³⁷⁶ Ibid., 180-181. Krajewski continues that "after 1918, the KRA and Siemens can continue their electrotechnical engagement in a secretive mission within the context of the GOELRO plan for the electrification of the Soviet Union. It is not by chance that Rathenau's entire published body of work can be found in the reference library of Gleb M. Krzhizhanovsky, the former Siemens engineer and mastermind of the GOELRO plan." Incidentally, Nishihara's advocacy for hydroelectricity would be taken seriously by the Ugaki administration in Korea, and "By the end of the 1930s, 82 percent of Korea's electricity came from hydropower, as opposed to 56 percent for Japan". Hydroelectricity remains the largest source of electrical power in post-war North Korea. (Aaron Stephen Moore, *Constructing East Asia – Technology, Ideology and Empire in Japan's Wartime Era 1931-1945*. Stanford: Stanford University Press, 2013. 265 note 18.)

off as fierce critics of Rathenau's newly created Leviathan; Bukharin's analysis preceded that of Lenin.³⁷⁷ As Bukharin writes –

“The individual production branches are in various ways knit together into one collective body, organised on a large scale. Finance capital seizes the entire country in an iron grip. "National economy" turns into one gigantic combined trust whose partners are the financial groups and the state. **Such formations we call state capitalist trusts.** [...] the economically developed states have already advanced far towards a situation where they can be looked upon as big trust-like organisations or, as we have termed them, state capitalist trusts. [...] Being a very large shareholder in the state capitalist trust, the modern state is the highest and all-embracing organisational culmination of the latter. Hence its colossal, almost monstrous, power.”³⁷⁸

Central to Bukharin's analysis, which deserves to be quoted at length, is the assertion that the “State Capitalist Trust” which, being almost complete in many countries on the eve of the war due to the monopolistic tendencies of capitalism, have been strengthened by Rathenau's mobilizational measures, and rendered indestructible by the direct involvement of the state in their operation. “...the war also influences the structure of individual "national" economies in such a way as to intensify centralisation within the limits of every "national" body and, while wasting productive forces on a colossal scale, it organises "national economy" in that it

³⁷⁷ “...the formation of state (production and trade) monopolies; the organisation of so-called "mixed enterprises" (*gemischte Betriebe*) where the state or the municipalities are partners to the enterprise, hand in hand with private syndicates and trusts; state control over the production process of private enterprises (obligatory production, regulation of production methods, etc.); regulation of distribution (compulsory deliveries and acceptance of goods; organisation of state "central distribution offices;" state warehouses for raw materials, fuel, foodstuffs; fixing of prices; bread cards, meat cards, etc.; prohibition of import and export of goods, etc.); organisation of state credit; lastly, state organisation of consumption (communal kitchens).”

“Germany has introduced bread, potato, nitrate monopolies, etc., and has a number of others in prospect [...] even the coal industry is turning into a "mixed cartel" where a syndicate co-operates with the government. In all these cases the government directly intervenes in the sphere of production; there is, however, another and very effective governmental intervention through credit relations. Typical for the latter is the "financial mobilisation" and related operations in Germany. Even at the beginning of the war the Reichsbank operated through a series of other large banks; later its activities in this respect were greatly augmented. The so-called "loan banks" (*Darlehenskassen*) as state institutions dependent upon the Reichsbank, soon became a very important factor in the realm of credit. A tremendous importance is attached to internal military loans that are being placed among the public directly by the Reichsbank. Thus the latter, an institution endowed with exceptional importance in the economic life of Germany even before the war, has grown tremendously in importance, becoming as it did a strong centre for the attraction of available portions of capital. On the other hand, it grows also as an institution that finances the ever increasing state enterprises and other state economic organisations. The central banking institute of the government thus becomes the "golden head" of the entire state capitalist trust. One must not think that this evolution is confined to Germany alone. *Mutatis mutandis* the same process is taking place in all the belligerent countries.” (Bukharin, *Imperialism*, 149-152.)

³⁷⁸ Ibid., 118, 129. Emphases mine.

places it more and more under the combined rule of finance capital and the state.”³⁷⁹ The war itself has taken, and post-war competition will take, the form of competition between State Capitalist Trusts, and as we shall see, this is a notion that Nishihara was surprisingly alert to – “The centralisation process proceeds apace. Combines in industry and banking syndicates unite the entire "national" production, which assumes the form of a company of companies, thus becoming a state capitalist trust. Competition reaches the highest, the last conceivable state of development. **It is now the competition of state capitalist trusts in the world market.** Competition is reduced to a minimum within the boundaries of "national" economies...”³⁸⁰ As if to describe Walther Rathenau himself, Bukharin writes of these State Capitalist Cartels as the manifestation of new, state-supported bourgeois power, the proof of which lies in the fact that they are staffed by none other than representatives of the capitalist class.³⁸¹ “The state becomes more than ever before an "executive committee of the ruling classes." [...] the government is *de facto* transformed into a "committee" elected by the representatives of entrepreneurs' organisations, and it becomes the highest guiding force of the state capitalist trust.”³⁸² Bukharin then delivers his *coup de grace* on State Socialism –

“What is that picture of present-day "State Socialism" which appears to be a "change in principle"? [...] We have here the process of accelerated centralisation within the framework of a state capitalist trust, which has developed to the highest form, **not of State Socialism, but of State Capitalism.** By no means do we see here a new structure of production, i.e., a change in the interrelation of classes; on the contrary, we have here an increase in the potency of the power of a class that owns the means of production in quantities hitherto unheard of. To apply to such a state of

³⁷⁹ Ibid., 148

³⁸⁰ Ibid., 119. Emphasis mine.

³⁸¹ “The bourgeoisie loses nothing from shifting production from one of its hands into another, since present-day state power is nothing but an entrepreneurs' company of tremendous power, headed even by the same persons that occupy the leading positions in the banking and syndicate offices. The difference is that, under such conditions, the bourgeoisie receives its income, not from the office of a syndicate, but from the office of state banks. On the other hand, the bourgeoisie is gaining from such a shift, since only when production is centralised and militarised, i.e., organised by the state, can the bourgeoisie hope to emerge victorious out of the bloody combat. Present-day war needs more than mere financial "funding." A successful war requires that factories and plants, mines and agriculture, banks and stock exchanges-everything should "work" for the war. "Everything for the war," is the slogan of the bourgeoisie. The exigencies of the war, and of imperialist preparations for war, force the bourgeoisie to adopt a new form of capitalism, to place production and distribution under state power, to destroy completely old bourgeois individualism.” (Ibid., 155)

³⁸² Ibid., 127-128

affairs a terminology fit for post-capitalist relations, is not only very risky, but also highly absurd. **"War Socialism" and "State Socialism" are purposely being circulated** with the direct intention of misleading the people and of covering up by a "good" word a very ungainly content. The capitalist mode of production is based on a monopoly of the means of production in the hands of the class of capitalists within the general framework of commodity exchange. There is no difference in principle whatsoever whether the state power is a direct expression of this monopoly or whether the monopoly is "privately" organised. In either case there remains commodity economy (in the first place the world market) and, what is more important, the class relations between the proletariat and the bourgeoisie."³⁸³

How then, does this lead to an optimistic situation for the socialist movement? Bukharin believes that the growth of the bourgeoisie, due to their monopolistic position within the war economy, renders the state in turn a mere organ of the bourgeoisie; the growth of such capital leads ultimately to calls for an effective dictatorship, with democratic institutions serving only as decoration. "Finance capital has consolidated almost all [political] varieties into one "solid reactionary mass" [...] "Democratic" and "liberal" sentiments are replaced by open monarchist tendencies in modern imperialism, which is always in need of a state dictatorship. [...] A "strong power" has become the ideal of the modern bourgeois. These sentiments are not "remnants of feudalism," as some observers suppose [...] This is an entirely new sociopolitical formation caused by the growth of finance capital."³⁸⁴ This exposes the nature of the dictatorial, exploitative bourgeois state in its barest form. "Relations between classes become most clear, most lucid; the mythical conception of a "state elevated above classes" disappears from the peoples' consciousness, once the state becomes a direct entrepreneur and an organiser of production. Property relations, obscured by a number of intermediary links, now appear in their pristine nakedness."³⁸⁵ Bukharin believes that this would awaken the masses to the cause of socialist revolution.

³⁸³ Ibid., 157

³⁸⁴ Ibid., 128

³⁸⁵ Ibid., 160.

Lenin, on the other hand, sees something in the new Leviathan of State Monopoly Capitalism that could render service to socialism. Rather merely causing the revolution to happen, the State Capitalist Trust constitutes the immediate preceding step to, and provides all the necessary conditions for, a transition to socialism. Lenin's analysis was inspired by Bukharin, and begins with the notion that because banks are at the centre of the State Capitalist Trust, the nationalisation of banks alone will not suffice, if the nationalisation of whole industrial combines is not carried out; and if they were carried out by a vigilant proletarian democratic regime that could exercise the functions of the capitalist class, the structure of the State Capitalist Trust would transform directly into a socialist economy.³⁸⁶ What Lenin had in mind was the Sovietisation of the Rathenau model, but noting that similar tendencies were already present in wartime Russia.³⁸⁷ Lenin is convinced that a vigilant proletarian regime will be able to put in place rapidly a Rathenau-esque "wartime socialist" economic system,³⁸⁸ which he calls "wartime state-monopoly capitalism". Given the changed class properties of the state, Rathenau's system could immediately become a step forward to socialism; it is, in fact, "a complete material preparation for socialism"; Lenin goes to the extent of saying that "there are no intermediate rungs" on the ladder between Rathenau's system and socialism.³⁸⁹

³⁸⁶ "Capitalism differs from the old, pre-capitalistic systems of economy in having created the closest interconnection and interdependence of the various branches of the economy. **Were this not so, incidentally, no steps towards socialism would be technically feasible.** Modern capitalism, under which the banks dominate production, has carried this interdependence of the various branches of the economy to the utmost. The banks and the more important branches of industry and commerce have become inseparably merged. This means, on the one hand, that it is impossible to nationalise the banks alone, without proceeding to create a state monopoly of commercial and industrial syndicates (sugar, coal, iron, oil, etc.), and without nationalising them. It means, on the other hand, that if carried out in earnest, the regulation of economic activity would demand the simultaneous nationalisation of the banks and the syndicates." (Lenin, "Nationalisation of the Syndicates", in "The Impending Catastrophe and How to Combat It". In *Lenin's Collected Works*, vol. 25. Moscow: Progress Publishers, 1977. Emphasis mine.)

³⁸⁷ "...imperialism is merely monopoly capitalism. That capitalism in Russia has also become monopoly capitalism is sufficiently attested by the examples of the Prodigol, [i.e. the coal monopoly] the Prodamet, [i.e. the metallurgy monopoly] the Sugar Syndicate, etc. This Sugar Syndicate is an object-lesson in the way monopoly capitalism develops into state-monopoly capitalism." (Lenin, "Compulsory Association", in *Ibid.*)

³⁸⁸ "Compulsory syndication, i.e., compulsory association, of the industrialists, for example, is **already being practised in Germany.** [...] A law of this kind does not directly, i.e., in itself, affect property relations in any way; [...] it is clear that the amalgamation of large- and medium-scale industry and trade could be effected in several months, if not earlier, provided compulsion to this end were **exercised by a really revolutionary-democratic government** relying on the support, participation, interest and advantage of the "lower ranks", the democracy, the workers and other employees, and calling upon them to exercise control." (Lenin, "Compulsory Association", in *Ibid.*)

³⁸⁹ "And what is the state? It is an organisation of the ruling class — in Germany, for instance, of the Junkers and capitalists. And therefore what [is] call[ed] "war-time socialism" is in fact war-time state-monopoly capitalism, or, to put it more simply and clearly, war-time penal servitude for the workers and war-time protection for capitalist profits. Now try to **substitute for the Junker-capitalist state, for the landowner-capitalist state, a revolutionary-democratic state,** i.e., a state which in a revolutionary way abolishes all privileges and does not fear to introduce

Hence Lenin's prescription in September 1917 for "War Communism".³⁹⁰ Almost five years later, in April 1921, after a long, exhausting civil war which, together with foreign interventions, brought the Communist economy to its knees, Lenin conceded momentary defeat and announced, in his pamphlet *The Tax in Kind*, a new economic policy that would mean a retreat to State Capitalism. Yet the template was still Rathenau's system, that is, with the addition of Soviet Power. Lenin goes to the extent of arguing that "our task is to study the state capitalism of the Germans, to spare no effort in copying it and not shrink from adopting dictatorial methods to hasten the copying of Western culture by barbarian Russia".³⁹¹ Lenin describes State Capitalism as a method of countering petty-bourgeois sabotage of the Soviet economy, and that its adoption would be a step from petty-bourgeois production

the fullest democracy in a revolutionary way. You will find that, given a really revolutionary-democratic state, state-monopoly capitalism inevitably and unavoidably **implies a step, and more than one step, towards socialism!**

[...] **For socialism is merely the next step forward from state-capitalist monopoly.** Or, in other words, socialism is merely state-capitalist monopoly which is made to serve the interests of the whole people and has to that extent ceased to be capitalist monopoly. There is no middle course here. The objective process of development is such that it is impossible to advance from monopolies (and the war has magnified their number, role and importance tenfold) without advancing towards socialism. [...] The dialectics of history is such that **the war, by extraordinarily expediting the transformation of monopoly capitalism into state-monopoly capitalism, has thereby extraordinarily advanced mankind towards socialism.** Imperialist war is the eve of socialist revolution. And this not only because the horrors of the war give rise to proletarian revolt—no revolt can bring about socialism unless the economic conditions for socialism are ripe—but because **state-monopoly capitalism is a complete material preparation for socialism**, the threshold of socialism, a rung on the ladder of history between which and the rung called socialism there are no intermediate rungs." (Lenin, "Can We Go Forward if We Fear to Advance Towards Socialism?", in *Ibid.* Emphases mine)

³⁹⁰ "...the control, supervision, accounting, regulation by the state, introduction of a proper distribution of labour-power in the production and distribution of goods, husbanding of the people's forces, the elimination of all wasteful effort, economy of effort. Control, supervision and accounting are the prime requisites for combating catastrophe and famine." ³⁹⁰ ("Famine is Approaching", in *Impending Catastrophe*) "These principal measures are: (1) Amalgamation of all banks into a single bank, and state control over its operations, or nationalisation of the banks. (2) Nationalisation of the syndicates, i.e., the largest, monopolistic capitalist associations (sugar, oil, coal, iron and steel, and other syndicates). (3) Abolition of commercial secrecy. (4) Compulsory syndication (i.e., compulsory amalgamation into associations) of industrialists, merchants and employers generally. (5) Compulsory organisation of the population into consumers' societies, or encouragement of such organisation, and the exercise of control over it." ³⁹⁰ (Lenin, "Control Measures are Known to All and Easy to Take", in *Ibid.*)

³⁹¹ "...let us first of all take the most concrete example of state capitalism. Everybody knows what this example is. It is Germany. Here we have "the last word" in modern large-scale capitalist engineering and planned organisation, subordinated to Junker-bourgeois imperialism. Cross out the words in italics, and in place of the militarist, Junker, bourgeois, imperialist state put also a state, but of a different social type, of a different class content—a Soviet state, that is, a proletarian state, and you will have the sum total of the conditions necessary for socialism. [...] While the revolution in Germany is still slow in "coming forth", **our task is to study the state capitalism of the Germans, to spare no effort in copying it and not shrink from adopting dictatorial methods to hasten the copying of Western culture by barbarian Russia**, without hesitating to use barbarous methods in fighting barbarism. If there are anarchists and Left Socialist-Revolutionaries [who] say that it is unbecoming for us revolutionaries to "take lessons" from German imperialism, there is only one thing we can say in reply: the revolution that took these people seriously would perish irrevocably (and deservedly)." (Lenin, "The Tax in Kind (The Significance of the New Policy and its Conditions)". In *Lenin's Collected Works*, vol. 32. Moscow: Progress Publishers, 1965.)

and pave the way to eventual socialism. Lenin's logic was that the implementation of State Capitalism would be like paying the tuition fees to train the workers how to manage mass production, and became a decisive step towards future socialism.³⁹² The way forward was to "buy out" the "cultured capitalists who agree to "state capitalism".³⁹³ Lenin announces that "the Soviet state and the dictatorship of the proletariat" is compatible with State Capitalism, and that "state capitalism is a step forward" compared to petty-bourgeois, small proprietor production. Thus the transformation is complete, from Rathenau's wartime Phase Two State Socialism – a form of State Monopoly Capitalism, emulated by Russia and taken over by the agents of the proletariat – to War Communism; later, in retreat, Lenin again fell back upon the Rathenau paradigm to reinstate the State Capitalist Trust, albeit under proletarian control. All that was missing now was the final triumph of this worker's state against the "cultured capitalists" – which Stalin set as his task.

2.4.2 Total War Mobilisation and Expectations of Post-war Rationalization

Bukharin and Lenin's theories were originally intended to analyse the imperialism that belied the First World War. One may deduce from their work that it was the intense international competition between State Capitalist Trusts, with armed conflict being one result, that explains the connection between State Socialism / State Monopoly Capitalism and Total War Mobilisation.³⁹⁴ The emergence of State

³⁹² "...it is worth paying for "tuition", because it is useful for the workers, [...] not only will the payment of a heavier tribute to state capitalism not ruin us, it will lead us to socialism by the surest road. When the working class has learned how to defend the state system against the anarchy of small ownership, **when it has learned to organise large-scale production on a national scale along state-capitalist lines, it will hold, if I may use the expression, all the trump cards**, and the consolidation of socialism will be assured." (Ibid. Emphases mine.)

³⁹³ "The petty bourgeoisie oppose every kind of state interference, accounting and control, whether it be state-capitalist or state-socialist. [...] **State capitalism would be a gigantic step forward even if we paid more than we are paying at present.** [...] Russia cannot advance from the economic situation now existing here without traversing the ground which is common to state capitalism and to socialism (national accounting and control) that the attempt to frighten others as well as themselves with "evolution towards state capitalism" is utter theoretical nonsense. This is letting one's thoughts wander away from the true road of "evolution", and failing to understand what this road is. In practice, it is equivalent to pulling us back to small proprietary capitalism. [...] Is it not clear that the higher we stand on this political ladder, the more completely we incorporate the socialist state and the dictatorship of the proletariat in the Soviets, the less ought we to fear "state capitalism"? [...] we must use the method of compromise, or of buying out the cultured capitalists who agree to "state capitalism", who are capable of putting it into practice and who are useful to the proletariat as intelligent and experienced organisers of the largest types of enterprises, which actually supply products to tens of millions of people." (Ibid.)

³⁹⁴ "When competition has finally reached its highest stage, when it has become competition between state capitalist trusts, then the use of state power, and the possibilities connected with it, begin to play a very large part. [...] With the formation of state capitalist trusts, competition is being almost entirely shifted to foreign countries; obviously, the organs of the struggle that is to be waged abroad, primarily state power, must therefore grow tremendously." "In "peaceful" times the military state apparatus is hidden behind the scenes where it never stops functioning; in war

Capitalist Trusts further explains the tendency towards territorial annexation and the formation of 'bloc economies' – of which the East Asian Economic League would have been one. Such tendencies had already started before the war³⁹⁵ –

“...there are no reasons why we should consider the struggle for raw material less acute [...] the tendency of annexing territories containing deposits of coal, iron ore, copper ore, oil deposits [is shown by] England's [...] transformation of all of Egypt into a gigantic cotton plantation furnishing raw material for the English textile industry”.³⁹⁶

David Lockwood notes that “Rathenau would have been the first to agree that his ideas did not apply to Germany alone.”³⁹⁷ This is perhaps the reason why David Lloyd-George saw in the KRA something for Britain to emulate; and he would put forward for the other allied countries such a vision at the 1916 Paris Economic Conference, also attended by Japanese delegates. “Within the history of the World War, the KRA stands out. It holds a singular position as a catalytic element for the development of the war that no comparable institution can parallel, neither in the German military nor on the part of the entente. At best, the efforts of Lloyd-George to organize the British munitions office after 1916 according to the model of the KRA exhibits certain similarities with the German measures. [...] Owing to the extolment of the Times article from October 1915”, which praised Walther Rathenau’s work at the German KRA, “Lloyd-George adapts the system for the British munitions office,

times it appears on the scene most directly. [...] If state power is generally growing in significance, the growth of its military organisation, the army and the navy, is particularly striking. The struggle between state capitalist trusts is decided in the first place by the relation between their military forces, for the military power of the country is the last resort of the struggling "national" groups of capitalists. [...] It ought to be obvious from the foregoing considerations that armaments are an indispensable attribute of state power, an attribute that has a very definite function in the struggle among state capitalist trusts. [...] This is why in our times, when economic conflicts have reached an unusual degree of intensity, we are witnessing a mad orgy of armaments. Thus the rule of finance capital implies both imperialism and militarism.” (Bukharin, *Imperialism*, 123-127.)

³⁹⁵ “the war has unusually intensified the tendency towards economic autarchy, towards transforming the "national" economy into a self-sufficient whole, more or less isolated from world connections. [...] The ideologists of imperialism strive towards a state of affairs where a country produces everything "by itself," where it "does not depend upon foreigners," etc. Let the country acquire the necessary "economic supplements," let it secure for itself the sources of raw material, and the task, they say, is achieved.” (Bukharin, *Imperialism*, 146-147) “There is nothing behind the discussions about the creation of a middle European tariff alliance but the wish to create a vast economic territory as a monopoly system allowing more successful competition on the external market. In reality this is a product of the interests and the ideology of finance capitalism which, penetrating into all the pores of world economy, creates at the same time an unusually strong tendency towards secluding the national organisms, towards economic autarchy as a means of strengthening the monopoly situation of the respective capitalist groups.” (Ibid., 80.)

³⁹⁶ Bukharin, *Imperialism*, 95.

³⁹⁷ Lockwood, “Bourgeois Revolution”, 63.

and it also serves as a model on the French side, where it assists the reconstruction minister and later economic minister in reorganizing the national economy.”³⁹⁸

Britain was an unlikely candidate for KRA-styled economic reforms, with its long history of laissez-faire and bottom-up economic activity. Another hindrance lie in the snobbery and hierarchical nature of British managerial circles. “The prevailing wisdom in Britain [...] was that managerial skills were ‘in-born’ or were a ‘naturally developed personal attribute’. People were born to manage, just as people were born to be servants.”³⁹⁹ Rathenau observed in 1906, that “although Britain was still a world power, she was in industrial decline. He blamed poor training, trade union objectives and lack of management skills.”⁴⁰⁰ Thus Lloyd George’s mobilizational reforms carried with it a faint sense of social revolution, in much the same way as the war brought socio-revolutionary changes to Germany. “The generally acknowledged early success of the KRA in directing the production and distribution of steels, coal, building materials, and foodstuffs added further weight to arguments that, in the wake of the war, centralized direction of the economy should be carried over into the task of meeting the needs of a peacetime economy.”⁴⁰¹

Many expected the continuation of mobilization and rationalization in peacetime and reconstruction, and much like Britain in late 1945, the general mood was in favour of drastic reform. “Towards the end of the war, it was broadly accepted in the advanced economies of Europe that something like the degree of state direction induced by the conflict would continue once peace was established.”⁴⁰² This was the case even in Britain where state intervention was perhaps accepted less willingly than elsewhere.” British public opinion was “strongly in favour of the government taking control of food supplies to prevent profiteering” in what Lockwood describes as an expression of distrust towards the free market; the British public proceeded to request the government to institute “rationing to ensure

³⁹⁸ Krajewski, *World Projects*, 179-180. As Bukharin reports – “The aims of industrial mobilisation as well as its significance have been stressed by the English minister, Mr. Lloyd George, when he said on June 3, in Manchester, that the law relative to the defence of the realm gave the government full power over all the factories; that this law made it possible for the government to give precedence to work most urgent; that it gave the government a right to dispose of every factory, every machine, and that were a difficulty to be encountered, the ministry was well supplied with arms to make its orders effective. Similar measures have been adopted also in France and Russia. Aside from direct control of state power over the production of private enterprises, the war has established a number of state monopolies. In England the railways have become state property...” Bukharin, *Imperialism*, 151-152

³⁹⁹ Starbuck, “Introduction”, xiii.

⁴⁰⁰ Ibid., xi.

⁴⁰¹ Keith Tribe, *Strategies of Economic Order*. Cambridge : Cambridge University Press, 1995. 152.

⁴⁰² E. Wrench, *Struggle 1914-1920* (1935), 333. Quoted in Lockwood, “Bourgeois Revolution”, 69.

fairness”, being “an example of war-induced confidence in the virtues of egalitarianism.” Many in official positions “clearly expected no ‘roll-back’ of the state after the war.”⁴⁰³ The situation in Britain is as David Lockwood describes –

“On the left, social democrats and trade unionists who did not oppose the war (and they were the great majority) saw, in wartime measures, elements of ‘progress’. The collectivist aspects of state policy in the belligerent countries and its enforced egalitarianism enabled the left to detect elements of a future socialism within it – even if it was the ‘barracks socialism’ that Marx had warned against. In fact, the barracks themselves were endorsed as a progressive social model by sections of the labour movement, particularly in Germany and Russia. [...] The promise of the state resurgent had replaced that of the bourgeois and democratic revolution.”⁴⁰⁴

In the United States, too, wartime mobilisation has been planned by a number of organisations under Woodrow Wilson from 1915 onwards, beginning with the Industrial Preparedness Committee (IPC), the formation in 1916 of the Council of National Defense and from July 1917 to November 1918, the War Industries Board. The nature and composition of these institutions, rather than heralding social revolution, reflected the initial analysis made by Bukharin – that these would be staffed by capitalists and ultimately served their interests.⁴⁰⁵

On June 14-17th, 1916 the eight Allied Nations held an Economic Conference in Paris. Its official recommendations were signed by delegates including Baron Sakatani Yoshio, [阪谷芳郎] who was to advise on Chinese monetary reform during the Nishihara Loans. The document referred to the establishment of an Allied

⁴⁰³ Ibid., 66, 69.

⁴⁰⁴ Ibid., 61.

⁴⁰⁵ “In the initial Advisory Commission a railroad executive was put in charge of transportation, a Sears executive was put in charge of supplies, and a conservative labour union leader was put in charge of labour. [...] Howard E. Coffin, vice-president of the Hudson Motor Company and chairman of Wilson’s IPC [...] became head of manufacturing and munitions, while a wealthy Wall Street financier named Bernard Baruch assumed control over raw materials. When the War Industries Board was formed, Baruch became its czar. When his powers were expanded, the WIB intervened in virtually all aspects of the economy [...] In effect this meant ensuring that Baruch’s friends in industry profited from military production. The board, as its official historian put it, ‘was really the town meeting of American industry, curbing, disciplining and devoting itself.’ While allegedly authorized to fix maximum prices to protect society from war profiteering, the board actually used these as minimum prices to protect specific business interests. The board’s price-fixing committee became the forum for the enforced cartelization of American industry.” (Lavoie, *National Economic Planning*, 223-224.)

“economic alliance” organized on “a permanent basis”⁴⁰⁶ and confirmed that “the Allied Powers have agreed to adopt a common economic policy”⁴⁰⁷ with regards to three aspects of policy - the wartime economic isolation of Germany and other enemy nations, reconstruction in the Allied nations, and a range of post-war “Permanent Measures of Mutual Assistance and Collaboration Among the Allies”. In the second category, one clause stipulated that “The Allies declare themselves agreed to conserve for the allied countries, before all others, their natural resources during the whole period of the commercial, industrial, agricultural, and maritime reconstruction, and for this purpose they undertake to establish special arrangements”.⁴⁰⁸ Such would include making “recourse to either enterprises subsidized and directed or controlled by the government themselves or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources, or to customs duties or prohibitions of a temporary or permanent character, or to a combination of these different methods.” The objective was to “increase the production within [Allied] territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.”⁴⁰⁹ To facilitate the “interchange of their products”, measures would be taken to establish “direct and rapid land and sea transport service at low rates and by the extension and improvement of postal, telegraphic and other communications.”⁴¹⁰ Although the conference stopped well short of producing concrete and detailed proposals on economic reform and cooperation – unusual for a conference which lasted 4 days – the general direction was clear. The Allied governments have legitimized massive government intervention in economic administration for increasing production and self-sufficiency, whilst pledging themselves to the provision of transport infrastructure to improve wartime and post-war material circulation.

The Japanese leadership responded enthusiastically to the Paris Economic Conference. The Minister of Agriculture and Commerce, Nakashoji Ren, [仲小路廉] wrote to the Prime Minister Terauchi Masatake that the Paris Economic Conference had provided a good opportunity to establish an organisation to investigate the

⁴⁰⁶ “Recommendations of the Economic Conference of the Allied Governments”, In *The American Journal of International Law*, vol. 10, no. 4, 1916 (10), 227, Preamble.

⁴⁰⁷ Ibid., 231, Clause D.

⁴⁰⁸ Ibid., 229, Clause B-III.

⁴⁰⁹ Ibid., 230, Clause C-I.

⁴¹⁰ Ibid., 231, Clause C-II.

industrial situation, something which Nakashoji “had for years thought to be necessary”.⁴¹¹ In a book chapter published in May 1918, Terauchi himself wrote that, in the spirit of the Paris Economic Conference – and indeed also of Bukharin’s “State Capitalist Trust” – the Japanese Empire must anticipate economic warfare in peacetime, which would take the form of competing for outlets for products. The country must therefore look for ways to “unify its industrial system and to fully equip its commercial organisations”.⁴¹² In addition, once Gotō Shinpei assumed the post of Interior Minister in the Terauchi Cabinet, he continued his intense interest in Social Policy that he had possessed since the Meiji era as head of the Health Bureau. As Interior Minister, Gotō set up a Relief Section [救護課] in the Ministry and elevated many personnel familiar with social policy to important positions.⁴¹³

The stage has been set for large scale reform in Japan. All that was needed now was a script. This would be supplied by Nishihara Kamezō, and it involved the civilianisation of plans that he had drawn up for military mobilisation, as contained in a *Private Memorandum on Wartime Economic Mobilisation* submitted to Terauchi Masatake in December 1917. This was a direct response to the ideas aired at the Allied Economic Conference, and made reference to mobilizational systems particularly in France and Germany. Nishihara felt that although Japanese troops were well trained, the nation is in need of a systematic economic mobilizational system.⁴¹⁴ He also felt that the government purchasing system was dominated by “useless intermediaries” and merchants who take government orders for granted. Reforming this would require establishing a Ministry of Military Procurement [軍需省] obviously on the lines of the KRA, with branches across the country to purchase materials directly from local governments, and possibly even setting up bureaus in China.⁴¹⁵ Nishihara also pointed out that prolonged Japanese wartime mobilisation is impossible without placing both Japan and China within the same economic

⁴¹¹ “Nakashoji’s letter to Terauchi on 21st December, 1916” [一九一六年十二月二日付寺内宛仲小路書簡], in *Terauchi Papers* [寺内文書], 201-13. In Fujii, Takashi. [藤井崇史] “Rengōkoku Keizai Kaigi (1916) to Nihon” (“The Allied Economic Conference (1916) and Japan”) [連合国経済会議 (一九一六) と日本] In *Shirin* [史林] vol. 100, no. 5, 2017 (9), 62.

⁴¹² Terauchi, Masatake. [寺内正毅] “Keizai no Dokuritsu to Kinyū Kikan” (“Economic Independence and Financial Institutions”), [經濟の獨立と金融機關] In *Research for the Post-war – Opinions of a Hundred People. [戦後の研究 – 百人式話]* Tōkyō : Fuzanbo [富山房] 1918, 120.

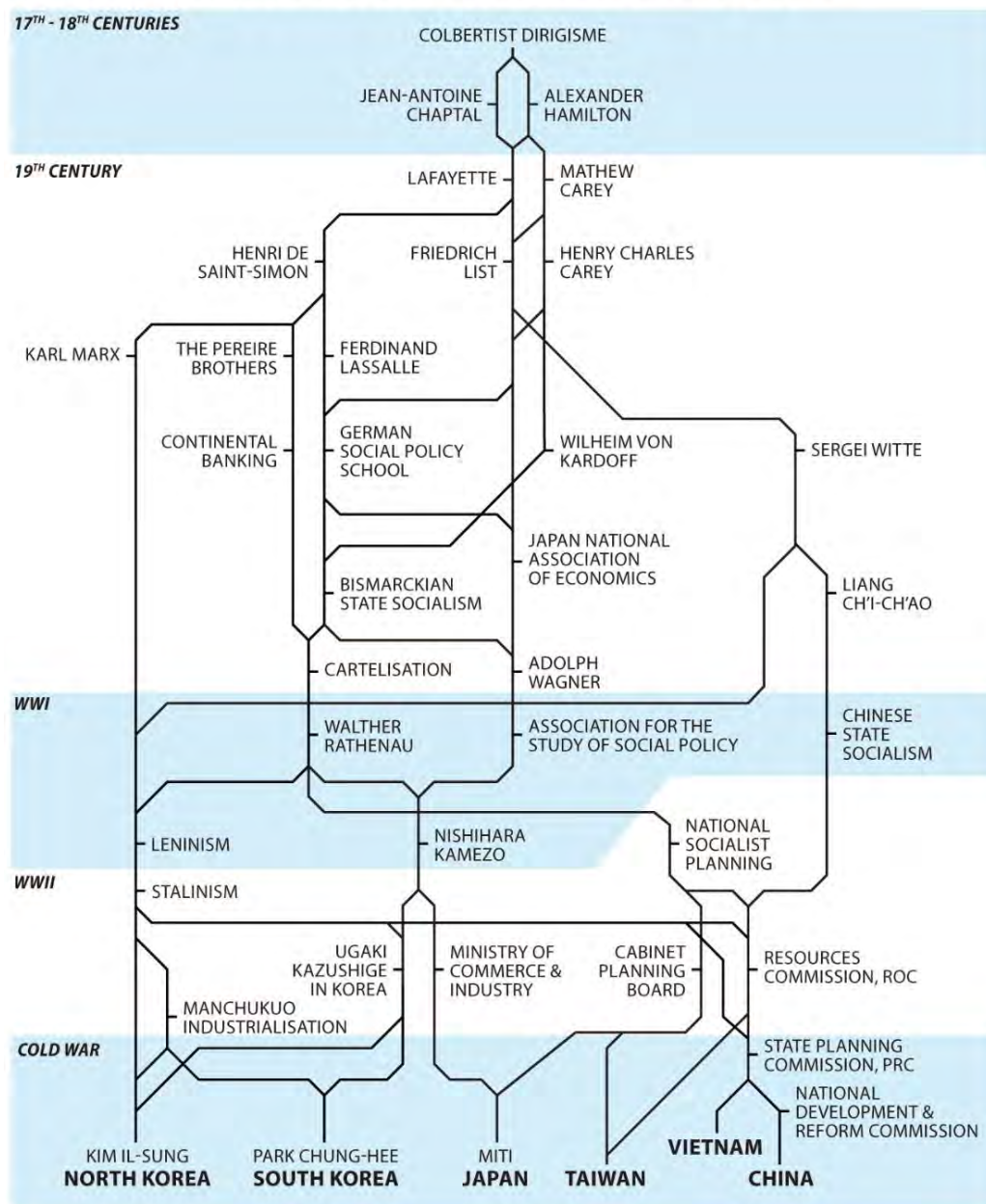
⁴¹³ Kita’oka Shin’ichi. *Gotō Shinpei – Gaikō to Bishyon* (Gotō Shinpei – Diplomacy and Vision.) [後藤新平 – 外交とヴィジョン] Tōkyō : Chuko, [中公新書] 2002. 168.

⁴¹⁴ Nishihara Kamezō, “Senji Keizai Dō’in Keigaku Shigi”, [戦時經濟動員計畫私議] in *Nishihara Kamezo Kankei Monjo* v. 33, 152.

⁴¹⁵ *Ibid.*, 155-157.

sphere. Nishihara correctly observed that in France and Germany, economic mobilizational systems have not only increased labour productivity, but has also been actively seeking methods to mediate between capitalists and labour – effectively a form of wartime State Socialism.⁴¹⁶ At the same time though, Nishihara noted that wartime mobilizational systems should be designed in a way to allow for easy conversion to civilian use in peacetime, so as to allow for triumph in post-war economic warfare.⁴¹⁷ This serves as the starting point for Nishihara's thinking on the direction that the Japanese and Chinese economies should take in the post-war period, and his solution was to propose a civilianised, permanent version of the Rathenau State Socialist system.

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⁴¹⁶ Ibid., 154

⁴¹⁷ Ibid., 153.

3. Nishihara Kamezō's Strategy

3.1 Japan's External and Internal Impasse

The outbreak of revolution in China in October 1911 was, according to Kobayashi Michihiko, [小林道彦] the catalyst of a "Split in the Vision of State Development" [國家經營構想の分裂] in Japanese political circles. Kobayashi named three parties in contest with one another⁴¹⁸ – there was Yamagata Aritomo's [山縣有朋] faction of militarists aiming at "grand military expansion and a militaristic Continental Policy Line", taking the Chinese revolution as an opportunity for intervention; there was Hara Takashi, [原敬] head of the Seiyukai party, [政友會] who held a "Passive, Profit-based Doctrine of Colonial Development"; and there was Katsura Tarō, whom despite his military background, was dedicated to forming a new party – the Dōshikai [同志會] – in order to pursue his goal of "Suppressing military expansion" in tandem with an "Active Continental Policy". Katsura found an ally in Gotō Shinpei, [後藤新平] ex-Civil Governor of Taiwan and ex-President of the South Manchuria Railway. (SMR) [南滿洲鐵道] They resisted Yamagata's proposal of sending two extra battalions to northern China to suppress the revolution there, believing that a military solution to Continental problems had severe limits, and preferred to collaborate with China's revolutionary regime. They understood that "the resolution of the China problem should be addressed first", but by non-bellicose means.⁴¹⁹

In Japan, Katsura attempted to remove the ban on civilians to become Army and Naval Ministers,⁴²⁰ and conspired with Gotō to eradicate the influences of the Japanese military in the colonial Manchurian enterprises – to civilianise Manchuria, so as to speak. These plans were in opposition to the proposal to allow the Governor of Korea, Terauchi Masatake, to concurrently hold the Kwantung Military Governorship [關東都督] which controlled Dairen [大連] and Port Arthur [旅順].⁴²¹ Gotō Shinpei wanted instead to scrap the Kwantung Military Government, retaining only a Civil Governor who would also be Japanese Consul to Manchuria; incidentally that Consul would also be the President of the SMR, and he should be a civilian rather

⁴¹⁸ Kobayashi, Michihiko. [小林道彦] *Nihon no Dairiku Seisaku 1895-1914* (Japanese Continental Policy 1895-1914.) [日本の大陸政策 1895-1914] Tōkyō : Nansosha, [南窓社] 1996. 239.

⁴¹⁹ Nagajima Ryuji, [長島隆二] *Seikai Hiwa (Secrets of the Political World)*. [政界秘話] (Tōkyō : Heihansha, [平凡社] 1928), 104. Quoted in *ibid.*, 287.

⁴²⁰ *Ibid.*, 286.

⁴²¹ This was an idea put forward by the Vice Chief of Staff, Tanaka Gi'ichi. [田中義一]

than a soldier.⁴²² Thus Gotō was trying to push forward the centralisation of all aspects of control in Manchuria around the SMR, to the resistance of the Foreign Ministry and Katō Taka'aki. [加藤高明] Katsura's untimely death in 1913 put paid to the Manchurian reforms, and it was Katō, of all people, who succeeded Katsura as head of the Dōshikai. What was clear to Gotō and Katsura was that the existing arrangement of administrative control over Manchuria and Korea was unsustainable, and not only does some sort of centralisation be necessary around an economically-important core (ie. SMR) rather than the military establishment, but, as Kobayashi hypothesises, the positions of Governor of Korea and Kwantung would have gradually been turned over to civilians.⁴²³ In any case, Katsura's insistence on a diplomatic and civilian rather than military solution for China showed a huge advance in terms of Japanese political thinking compared to Yamagata's aggression.

Gotō's vision of Continental enterprise was one of active developmentalism, and this brought him much trouble from his less-than-enthusiastic or adventurous peers. "Gotō had developed, against the opposition of Takahashi Korekiyo [高橋是清] and the Yokohama Specie Bank, [横濱正金銀行] a series of proposals for a special bank with the authority to issue gold notes, fund Japanese development projects, and assist Japanese colonists. In 1914 Gotō enlarged this idea into a scheme for a special "Bank of the Orient" [東洋銀行] to cover all of China."⁴²⁴ This bank would be founded with an equal share of founding capital of 50 million yen each from China and Japan, and China's share would have been in the form of a Japanese loan.⁴²⁵ According to Kita'oka Shin'ichi, Gotō had received endorsement from Yamagata, Inoue Kaoru and even the Prime Minister Ōkuma Shigenobu [大隈重信] himself, before Foreign Minister Katō Taka'aki, out of his own brand of idealism and personal vendetta towards Gotō (who had refused to join Katō's Dōshikai) sabotaged the Bank plans.⁴²⁶ At this point Katō raised the Twenty-one Demands against China. In order to weaken Ōkuma and Katō, Gotō commissioned Nishihara Kamezō in secret to investigate Japanese war crimes during the invasion of Shantung and Japan's illegal sponsorship of Chinese rebels.⁴²⁷ It did not take long before Ōkuma

⁴²² Ibid., 289-291.

⁴²³ Ibid., 292.

⁴²⁴ Tsurumi Yusuke. *Gotō Shinpei* (Tokyo : Keisō shobō), 2: 885-904. Quoted in Metzler, *Lever of Empire*, 99;

⁴²⁵ Kitaoka, *Gotō Shinpei*, 151.

⁴²⁶ Ibid., 152.

⁴²⁷ Ibid., 163; For Nishihara's account and the actual pamphlet's contents, see *Jiden*, 86-113. This is probably the first investigation that Japan conducted on their own conduct of war.

Shigenobu's cabinet resigned, and Terauchi Masatake took over the reins of government in October 1916. "Gotō at once began to cook up plans for a new financial initiative in China, again invoking his slogan of 'military preparation in civilian clothing.'"⁴²⁸ By November 1916, Gotō Shinpei "urged Prime Minister Terauchi to devise an 'original policy' that would reflect the new financial situation."⁴²⁹ Gotō's ideas have been described as being –

"based upon a racial conception of international affairs and were unlimited in their ambition. His plan for an "original" China policy presented to Terauchi in November 1916 outlined a Sino-Japanese economic alliance aimed at strengthening Sino-Japanese political, economic and cultural ties to the exclusion of the Western powers. [...] As a start, he suggested founding a new bank that would channel 100 million yen to Beijing, Collateral for the loan could come from the Chinese government monopoly on opium"⁴³⁰

In May-June 1914, Shibusawa Ei'ichi, [澁澤榮一] Japan's veteran entrepreneur, had visited China. In 1913 Shibusawa was liaising with Sun Yat-sen to establish an inter-governmental Sino-Japanese Industrial Corporation.⁴³¹ [中日實業會社] Sun Yat-sen, having just offered his Presidency to Yuan Shih-k'ai, [袁世凱] assumed instead the Directorship of the National Railways.⁴³² Later in 1913, however, Sun Yat-sen started a Second Revolution against Yuan Shih-k'ai, after the latter had allegedly ordered the assassination of Sung Chiao-jen, [宋教仁] President of the Kuomintang. Sun's forces were defeated by Yuan and Sun was forced to flee. The person whom under Yuan's auspices took over the reins of the Sino-Japanese Industrial Corporation was Yang Shih-ch'i, [楊士琦] an industrial bureaucrat second in command to the Minister of Agriculture and Commerce, Chang Chien. [張謇] They then invited Shibusawa Eiichi to visit China in May-June 1914, during which Shibusawa met most of the (Japanese-educated) Chinese governing elite, including

⁴²⁸ Metzler, *Lever of Empire*, 99.

⁴²⁹ Dickinson, *National Reinvention*, 161.

⁴³⁰ From Gotō's "China Policy Draft" of Dec 1916; in Tsurumi, *Gotō Shinpei* (Tokyo : Keisō shobō), vol. 3, 649. Quoted in Dickinson, *National Reinvention*, 161-2.

⁴³¹ Tian, Tong. [田彤] "Introduction 1", in *1914 : Seze Rongyi Zhongguo Xing* (1914 : Shibusawa Ei'ichi's visit to China). [1914 澁澤榮一中國行] Wuhan : Huazhong Shifan Daxue Chubanshe, [華中師範大學出版社] 2013.2.

⁴³² Sun Yat-sen had, upon assuming the directorship of the National Railways, defied the appeals of the bourgeoisie and refused to reverse the 1911 Manchu policy of railway nationalisation which had caused the revolution in the first place. Sun's assumption of the joint-directorship of the Sino-Japanese Industrial Corporation could thus be seen as another manifestation of his state-capitalist beliefs, which went in tandem with a basic acknowledgement of the socialist nature of his revolution, as we shall see later.

a "Waseda graduate association" formed of Chinese parliamentarians.⁴³³ Mysteriously, Chang declined to meet Shibusawa and instead went to central China for an American-funded river conservancy project.⁴³⁴

Little came out of Shibusawa's visit because war broke out in Europe just weeks after he returned to Japan; yet the importance of this visit is not to be underestimated. Shibusawa met Nishihara on a number of occasions in 1916-17 to discuss China policy, and it is clear from Nishihara's diaries, for example the entry on 31st October, 1917, that Shibusawa either inspired or agreed to Nishihara's views regarding the use of Boxer Indemnity funds to encourage cotton and iron production in China, and to sponsor geological surveys.⁴³⁵ Presumably Shibusawa had understood the industrial policies first advanced by Chang Chien in 1912-13 (The "Cotton & Iron Doctrine" [棉鐵主義]) and perhaps even passed on some of the Chinese documents to Nishihara, or at least made known to him of their existence. Shibusawa frequently criticised the arrogance of Japanese diplomacy towards China and insisted – at least when speaking to Chinese crowds – that China should be treated as an equal partner, and that a new diplomacy was an integral component of his "Abacus and Analects" theory.⁴³⁶ There is a high congruence in the "Sino-Japanese Cooperation" [日支提携] rhetoric that Shibusawa employed in his speeches in China, and what Nishihara wrote in his 1918 manifesto.

Shibusawa's visit to China does show that at least for once, in 1913-14, there was a flurry of interaction between Chinese and Japanese economic bureaucrats and a dialogue had taken place then, if not earlier. This built upon the current of goodwill that had accumulated in cycles and was sometimes lost, during the two decades after 1895; a "Sino-Japanese Industrial Cooperation" would have been impossible had the Chinese leaders not harboured certain Pan-Asianist sentiments. The "Bank of the Orient" scheme by Gotō came soon after Shibusawa's return to Japan. Katō Taka'aki's Twenty-One Demands intervened just at this point however, and damaged beyond repair what confidence towards Japan there was amongst the Chinese elite, and indeed, the general populace. Terauchi Masatake, who had spent

⁴³³ Ibid., "Introduction 1", 2-3; see also "Speech at the Welcoming Party for Baron Shibusawa", in Ibid., 71.

⁴³⁴ This has aroused the speculation of some historians. See Ma Min's opinion in Ibid., "Introduction 2", 2-3.

⁴³⁵ Yamamoto, ed. Shirō, [山本四郎] ed. Nishihara Kamezō Nikki (Nishihara Kamezō Diaries). [西原亀三日記] Kyōto : Kyōto Women's University, [京都女子大學] 1987. 228.

⁴³⁶ Shibusawa, "The Sino-Japanese Economic Rapprochement", in Tian, 1914, 35-36.

many years during the 1880s as a military attaché, was driven to tears when he said that “The Ōkuma Cabinet has destroyed eternal peace in the Orient for good at one stroke. [...] Invading territory is an easy thing, but this would not win you hearts and minds.” Terauchi proceeded to predict, with great foresight, that the Twenty-One Demands will “turn Japan and China into Germany and France in Europe – eternal enemies.”⁴³⁷ By 1916-17 Nishihara, given his predisposition to Pan-Asianist ideas, decided to pick up on where Shibusawa had left; but lacking his skill and support-base, and given the damage Katō had done, Nishihara was doomed from the outset for assuming such a grand undertaking.

Nishihara might therefore find some solace in the fact that he was far from alone at the time in advocating some sort of Sino-Japanese integrationism. In fact there was a whole field of similar opinions. Nezu Hajime, [根津一] an executive of the Tō'A Dōbunkai, [東亞同文會] had accused the Twenty-one Demands of being unjust. [不正義]⁴³⁸ Together with other executives a “Memorandum on China” [對支意見書] was sent to Terauchi in May 1917 which anticipated post-war international economic warfare and advocated a defence pact, railways across Eastern Mongolia, economic self-sufficiency and bans on the sale of cotton and wool produced in the British Empire. It was to be both an economic and spiritual union.⁴³⁹ Nishihara very likely read this proposal, for he had access to Terauchi's documents, and in his own manifesto he employed similar arguments to Nezu's, for example the expectation that a large, coherent economic bloc composed of the British Empire would emerge after the war,⁴⁴⁰ and that Japan must respond by forming its own economic bloc. This needs to be understood within the context of the bloc-economic visions that emerged from the Allied Economic Conference of 1916. (see section 2.3.2) It is worth mentioning that Nezu had submitted another memorandum to Okuma Shigenobu while the latter was Prime Minister, and this document suggested much harsher policies towards China, bearing greater similarity to the Twenty-one Demands. It serves to show that the attitude to China within the establishment and in public

⁴³⁷ Nishihara, *Jiden*, 73, 70.

⁴³⁸ Baba, Takeshi. [馬場毅] *Kindai Nicchū Kankeishi no naka no Ajia Shugi: Tō'A Dōbunkai • Tō'A Dōbunshoin wo chūshin ni*. (Pan-Asianism in Modern Sino-Japanese Relations: A Focus on the Tō'A Dōbunkai and the Tō'A Dōbunshoin) [近代日中関係史の中のアジア主義: 東亜同文会・東亜同文書院を中心に] Nagoya: Arumu, [あるむ] 2017. 47-48.

⁴³⁹ Ibid., 69-71.

⁴⁴⁰ Nezu Hajime, “Taishi Ikensho” [對支意見書], in *Terauchi Masatake Kankei Monjo* 448-30, 23.

opinion did depend to a certain extent on whether the attitude of the ruling elite was bellicose, as in Okuma, or sympathetic and cooperative, as in Terauchi.

Another prominent advocate was Nagajima Ryūji, [長島隆二] whom Nishihara frequently met in 1918-1919. Nagajima, a member of the House of Commons, was Katsura Tarō's son in law and an ex-member of the Dōshikai. He left the party in opposition to Katō Taka'aki, both for his "erroneous foreign policy" (likely in reference to the Twenty-One Demands), and for having corrupted the Dōshikai as a "party of bureaucrats' allies". [官僚的朋黨]⁴⁴¹ Nagajima hoped to continue the "spiritual legacy" [遺志] of Katsura Tarō by promoting the idea of "Sino-Japanese Economic and Spiritual Integration" [日中經濟的一心同體化] which would be built on a military, political and economic alliance between the two countries.⁴⁴² Indeed Nagajima thought that such an alliance would be necessary for a future total mobilizational system, should Japan decide to intervene against the Bolsheviks.⁴⁴³

Vice Chief of Staff Tanaka Gi'ichi had earned the title "the epitome of the China problem" from Viscount Miura Gorō, [三浦梧樓] for having plotted Kuomintang uprisings in the south and sponsored guerrillas in Manchuria composed of ex-nobles (the Tsung-she-tang 宗社黨) against Yuan Shih-kai during the later phase of Okuma Shigenobu's premiership. Yet even he now had to join the Sino-Japanese integration chorus. In a memorandum entitled *A Personal Opinion on the Management of China* [對支經營私見] dated September 1917, Tanaka reflected on the distrust between the Japanese and the Chinese, and criticised Japan for lacking the will to help China rid itself of the reins of the powers, and the Japanese in China for not considering matters from the point of view of the interest of the Chinese, in addition to viewing them as inferiors and resorting to strong oppressive means when conflicts arise.⁴⁴⁴ What Tanaka proposed however was a set of highly interventionist policies, congruent to the style of the Twenty-one Demands, only that this time they were more concerned with cultural matters, to increase Japan's control over China's cultural and social welfare institutions in order to bolster Japan's image and increase Chinese acceptance of Japanese values. As summed up by Frederick Dickinson –

⁴⁴¹ Sakurai, *Shingai Kakumei*, 346.

⁴⁴² Ibid., 348.

⁴⁴³ Ibid., 348.

⁴⁴⁴ "Tai-shi Keiei Shiken", [對支經營私見] *Tanaka Gi'ichi Kankei Monjo* (Papers Related to Tanaka Gi'ichi) [田中義一關係文書] 39.

“Tanaka argued for the ‘harmonic union of the Chinese and Japanese people’ by means of ‘joint management’ of China’s economic and intellectual infrastructure. Included was the establishment of a Japan-China Association to oversee all Chinese educational institutions and the media; the development of a unified system of hospital care in China under Japanese management; the unification under joint Sino-Japanese supervision of China’s silk and textile industries and, in the form of a giant steamship company, of all Chinese railways and steamship lines; and the establishment of a colossal Sino-Japanese steel company to regulate all Chinese production of steel and oil.”⁴⁴⁵

It is difficult to see how the Chinese would have been less provoked by Tanaka’s new proposals than they were by the Twenty-one Demands, for Tanaka proposed taking away from the Chinese their last viable economic sectors, notably silk. Yet Tanaka was correct in arguing for the creation of a Japan-China Association and Japanese schools in China, for they would have created new channels of communication and contributed to mutual trust between the Chinese and the Japanese – provided that Japan’s agenda was not to deprive China of anymore of its industries and resources. As we shall see, Tanaka’s proposals for cultural and welfare institutions would have complimented well Nishihara’s more reciprocal and benevolent economic proposals, which were ultimately doomed precisely by the lack of communication, trust and goodwill between the politicians and intellectuals of the two nations.

Indeed a similar opinion to Tanaka’s was voiced by the veteran China investor and Director of the Nissin Steamboat Company, Shiraiwa Ryūhei, [白岩龍平] in a 1916 compilation of opinion pieces penned by leading politicians and industrialists on Sino-Japanese cooperation. The compilation, published in Chinese, was edited by the *Industrial China* magazine [中國實業雜誌] based in Tokyo. Shiraiwa also proposed setting up Sino-Japanese Clubs in places like Tokyo, Peking and Shanghai to promote communication and to dispel misunderstandings. Shiraiwa then proceeds to argue, in a similar vein to Shibusawa Eiichi and Nishihara, that in developing the Chinese economy, Japanese capital and technology is the best partner for Chinese labour and

⁴⁴⁵ Dickinson, *National Reinvention*, 173-174.

raw materials, and that collaboration between the two will “safeguard the Orient”. More Sino-Japanese joint enterprises should be encouraged to establish.⁴⁴⁶

The war years had been marked by a boom in Japan’s exports, with real output in mining and manufacturing increasing from 140.2 (1914) to 276.1 (1919), and total firm capital rising from 160.9 (1914) to 487.0 (1919).⁴⁴⁷ Before WWI Japan was a semi-peripheral, Dependent Development country pursuing a “subimperialist” strategy,⁴⁴⁸ whereby it was dependent on loans from the London and New York markets to finance its continental wars and to invest in China and its colonies. WWI reversed the negative trade balance it had with the centre nations, allowed Japan to repay most if not all of its foreign debt and to become a creditor nation in its own right – Japan was on the way to becoming a centre nation. The country was truly at the crossroads, with the option on one hand of taking the orthodox imperialist expansionist road, and on the other, something unorthodox and yet-untried.

Yet the Siberian intervention would prove to be disastrous for Japan, for “the speculation of rice dealers, who hoped for an increase in rice prices during the summer because of the anticipated expedition of Japanese troops to Russia and by sharply reduced imports of rice due to a sudden shortage of ocean-going bottoms”,⁴⁴⁹ triggered the Rice Riots of 1918, a mass protest movement which combined complaints over the prices of daily commodities with the frustration since 1912-3 over the lack of progress towards universal suffrage. Rapid industrial development⁴⁵⁰ was, along with an unprecedented wave of labour strikes, getting out of hand for a government which desperately needed to regain its initiative. By mid-1918 the situation for Terauchi was dire, as Metzler illustrates -

“In 1917 rice prices rose nearly 50 percent. From January 1918 to the denouement of the rice riots in September, they rose by another 80 percent. Such inflation levels had not been seen since the eve of the Meiji Restoration [...] The pressure of the inflation also drove a wave of union organizing and of strikes, as more than 180,000 workers took part in more than 1,300

⁴⁴⁶ Shiraiwa Ryūhei, “Zhongri Huiguan yu Jiangli Hezi Zuzhi”. (Sino-Japanese Clubs and Rewarding Joint Enterprises) [中日會館與獎勵合資組織] In *Tashan Baijia Yan* (Advice from a Hundred Famed People from the Other Country) [他山百家言] Li Wenchuan, [李文權] ed. Tokyo : Zhongguo Shiye Zazhishe Bianjibu, [中國實業雜誌社編輯部] 1916.

⁴⁴⁷ Yamamura, “The Japanese Economy, 1911-1930”, 302.

⁴⁴⁸ Japan was in this case similar to Brazil in the 1960s-70s. See Evans, *Dependent Development*, 318-319.

⁴⁴⁹ Yamamura, “The Japanese Economy, 1911-1930”, 309.

⁴⁵⁰ Nishihara, *Keizai Rikkoku Saku*, 193.

strikes in 1917-19, as many-fold increase over past levels. [...] The crisis point was reached in the inflationary summer of 1918. On July 23 fishermen's wives protested high rice prices in the town of Uozu in Toyama prefecture. [...] Continuing into early October, the rice riots constituted the largest mass disturbances in Japan's modern history. More than a million, perhaps several million, people took part in riots in forty-nine cities, 217 towns, 231 villages, and twenty-nine mining areas, where the bloodiest battles took place. Police and soldiers killed more than thirty protesters. Thus, just as the government began the dispatch of 70,000 troops to combat Bolshevism in Eastern Siberia, it also deployed nearly 100,000 troops to put down civil disorder at home. The riots were suppressed, but they greatly discredited the Terauchi cabinet."⁴⁵¹

Terauchi resigned on 8th September, 1918 and Hara Takashi took over on the 29th. In any case, with or without Terauchi, Japan needed a panacea – but where might the mental resources for it be found?

⁴⁵¹ Metzler, *Lever of Empire*, 110-111.

3.2 Circumstances surrounding the publication of the manifesto

Nishihara Kamezō was born in 1873 to a humble agrarian background in Kumohara village, [雲原村] near Fukuchiyama [福知山] in the Tango region [丹後地方] to the north of Kyōto.⁴⁵² At the age of seventeen in 1889 he “left home for good” and worked first in a print shop in Kyōto, then as a “merchant sailor on the NYK line between Kobe and Okinawa”.⁴⁵³ He received basic education in economics and law whilst attending, in the early 1890s, the night-school of the Tōkyō Law Academy. [東京法學院]⁴⁵⁴ Nishihara became associated during this period with Kōmuchi Tomotsune, [神鞭知常] an MP from Kyōto whom, as we have already seen, was one of the leaders of the National Association of Economics. [國家經濟會] In the early 1900s Kōmuchi and Nishihara organised nationalistic, anti-Russian societies, and in 1904 he brought Nishihara with him to Korea where they began work to erect the Iljinhoe, [一進會] which they envisaged to be a league of Korean reformists dedicated to the modernisation of the Korean government.⁴⁵⁵ In 1905 Kōmuchi passed away, and in September 1906 the leaders of the Iljinhoe including Song Byeong-jun [宋秉峻] were arrested on Itō Hirobumi’s orders, Itō having been an old political foe of Kōmuchi’s. Threatened and coaxed by Uchida Ryōhei, [内田良平] the founder of the Black Dragon Society [黑龍會] who was then aide to Itō, the Iljinhoe leaders were released on the condition that they support the Japanese annexation of Korea.⁴⁵⁶

⁴⁵² Nishihara’s humble origins very probably explain why he never received the fame that he deserved. Although Nishihara often met elite politicians and documented these meetings in his diaries, the elites hardly mentioned Nishihara in their own diaries and memoirs. Terauchi Masatake’s diaries, for example, contained not a single entry on Nishihara. Tsushima Ju’ichi’s memoirs likewise never mentioned Nishihara. It is exceedingly difficult, as a result, to gauge the actual impact of Nishihara’s ideas, given that nobody was willing to give credit to him.

⁴⁵³ Peter Duus, *The Abacus and the Sword – The Japanese Penetration of Korea, 1895-1910*. Berkeley and Los Angeles : University of California Press, 1998. 347-348.

⁴⁵⁴ This school was known as the English Law School [英吉利法律學校] before 1889 and produced many prominent lawyers and legal scholars at the time; amongst the tutors at this academy were the legal scholar siblings Hozumi Yatsuka [穂積八束] and Hozumi Nobushige, [穂積陳重] as well as Hiranuma Ki’ichirō. [平沼騏一郎] This academy became in 1905 one of the constituents of Chūō University. [中央大學] (Chūō Daigaku Hyakunenshi Henshū I’inkai Senmon I’inkai [Chūō University Centenary History Editorial Committee Special Panel], [中央大学百年史編集委員会専門委員会] ed. *Chūō Daigaku Hyakunenshi : Tsushihen (Jyōkan)* (A Century’s History of the Chūō University – General History – Upper Volume.) [中央大学百年史：通史編 (上巻)] Tōkyō : Chūō University. [中央大学] 2001. 207-263)

Nishihara also attended a private academy, the Subun Gakkai [崇文學會] run by the scholar Sakada Yoshio, [坂田芳郎] although little is known of this institution.

⁴⁵⁵ Nishihara, *Jiden*, 23-27.

⁴⁵⁶ Han Sang-il, *Uchida Ryohei and Japanese Continental Expansionism, 1874-1916*. Claremont Graduate University PhD Dissertation, 1974, 164-167.

Having lost control of the Iljinhoe, Nishihara withdrew from politics, and became advisor to the Seoul Chamber of Commerce. He remained in bitter opposition to Itō administration in Korea. In an article from 1908 Nishihara critiqued the policies of the administration and proposed a brand of "Imperial Way Economics" [王道主義經濟] comprised of "economically-based governance which comforts the masses and which fosters the stability and improvement of economic life for the Koreans" as well as "improving transport and financial facilities to encourage the flow of commodities".⁴⁵⁷ Nishihara especially protested against the inflation-causing financial reforms of Megata Tanetarō, [目賀田種太郎] and Megata almost succeeded in evicting Nishihara from Korea.⁴⁵⁸ But Itō was assassinated in 1909, and Sone Arasuke [曾彌荒助] took over as Resident of Korea. Nishihara became "a close confidant" of Sone's successor, Terauchi Masatake, whom upon the annexation of Korea in 1910, became its Governor-General.⁴⁵⁹ In 1916, when Terauchi assumed Premiership of Japan, Nishihara acted as his aide and secret envoy to China and handled work that would otherwise have been politically embarrassing for Terauchi.

Nishihara's ideas on economic reform for Japan blossomed in the immediate aftermath of the June 1916 Paris Economic Conference. The flurry of activity was in relation to a "Movement for National Economic Renovation" [國民經濟革新運動] that was to be led by Tajiri Inajirō [田尻稻次郎] and Soeda Ju'ichi, [添田壽一] the leaders of the 'right-wing' of the ASSP. In the weeks after assuming premiership, Terauchi Masatake had been persuaded, and largely agreed, to put in place a new set of economic policies, but the plans came to nothing due to what Nishihara described as "indecision" on the part of Soeda.⁴⁶⁰ From this point on, Nishihara fought what was at times an increasingly lonely battle for reform to Japan's internal and external economy. The leadership of the ASSP Right had a direct role in fostering Nishihara's economic reformism, even though Soeda and Tajiri eventually backed out.⁴⁶¹

⁴⁵⁷ Sun Zhipeng. " 'Cunluo Jingji' Shehui : Xiyuan Guisan 'Wangdao Zhuyi' de Zhimin Gouxiang' (" 'Village Economy' Society: Nishihara Kamezō's 'Imperial Way Doctrine' and Colonial Vision.") ["村落經濟"社會：西原龜三"王道主義"的殖民構想] In *Beihua Daxue Xuebao (Shehui Kexue Ban)* (Journal of Beihua University (Social Sciences)) [北華大學學報(社會科學版)] 14 (3), 2013 (6), 79.

⁴⁵⁸ Schiltz, *Money Doctors*, 136; Nishihara, *Jiden*, 35-36.

⁴⁵⁹ Duus, *Abacus*, 350.

⁴⁶⁰ Yamamoto, ed. *Nikki*, 150.

⁴⁶¹ On 21st October, 1916 Nishihara visited Soeda Ju'ichi to exchange their views on "the renovation of the national economy". [國民經濟革新] On 23rd October, 1916 Nishihara visited Tajiri Inajirō to discuss the same matter, and the diary records that their views were in agreement with each other. (Ibid., 151.) That same day Nishihara visited Finance Minister Shōda Kazue to report on his meetings with Tajiri and Soeda Juichi and discussed future plans. The next day, 24th October, Nishihara visited Prime Minister Terauchi to speak about the need to arouse popular

Incidentally Horie Ki'ichi, [堀江歸一] a leader of the ASSP Left, was also involved in Sino-Japanese Economic Integration, having been invited to advise on the reform of the Bank of China and the country's transition to the gold standard by Finance Minister Liang Ch'i-ch'ao. Horie argued that because the Allied countries had pledged to integrate their economies at the Paris Economic Conference, a Sino-Japanese economic union exclusive of the European powers would be impossible; still, the mutual economic complementation of two countries is highly desirable, and Horie believes that the finances of the US have been tied down by the European conflict, leaving Japan as the only viable source of credit for China. Horie revives Shibusawa's idea of creating a Sino-Japanese Industrial Corporation, and funds for various projects be raised from issuing debt rather than obtaining loans from banks – a highly difficult matter at the time, as we shall see in section 3.4.5. Horie notes how many commentators advocating Sino-Japanese integration have neither acknowledged China's independence nor respected its sovereignty. Many have imagined China forever remaining an agricultural country and absorbing Japanese products in a future Sino-Japanese economic union; but this would be wrong. Horie argues that progress in the direction of promoting economic integration could not proceed without due regard for China's independence and the sentiment of its people. A self-sufficient economic unit would only work if China's productive forces could also be unleashed, whilst trade with the West should never be ruled out.⁴⁶²

A year later, on 2nd November 1917, Nishihara finally produced a thin pamphlet entitled "The Doctrine of Economic State-Building", [經濟立國主義] which already contained an advocacy for State Socialism.⁴⁶³ By January 1918 Nishihara began working on a book that became the manifesto *Strategy for Economic State-Building*, based on reference material made available to the Prime Minister. For a full day on 18th January, 1918 he worked on the manuscript, but the diary contains no further similar entries.⁴⁶⁴ This was to be the last entry on the issue until October 1918. During the politically and economically difficult months of summer 1918, Nishihara

opinion on "Economic State-Building". [經濟立國] Nishihara requested Terauchi to speak in person to Tajiri and Soeda. Later that day Nishihara paid a visit to Soeda, and again on 30th October where the men exchanged views on establishing a policy of "Economic State-Building". (Ibid., 152.) On 5th November he visited the MP and entrepreneur Asano Yōkichi [淺野陽吉] "to discuss Economic State-Building". On 6th November Nishihara visited Soeda again and made an agreement with him to "promote the idea of Economic State-Building". (Ibid., 154)

⁴⁶² Horie Ki'ichi. [堀江歸一] *Shina Keizai Shokan*. [支那經濟小觀] Tokyo: Shinmi Shoten, [新美書店] 1918. 76-98, 135.

⁴⁶³ Yamamoto, ed. *Nikki*, 228.

⁴⁶⁴ Ibid., 239.

made frequent meetings with Japanese politicians and the Chinese ambassador, Chang Tsung-hsiang, [章宗祥] who discussed the contents of the Loans policy with Nishihara in detail. By the time Gotō Shinpei became Foreign Minister in late April 1918 however, he began retracting his previous support to Nishihara. Ultimately, the frail Terauchi Masatake, who had been ill in bed for some time, resigned in September amidst national upheaval. In mid-October Terauchi asked Nishihara to publish the manuscript of *Strategy for Economic State-Building*. Nishihara set about finishing proofreading the manuscript, which was completed on 16th October, 1918, and the book was released on 31st October by Yuhikaku, a large publishing house at Kanda, Tōkyō. [神田有斐閣] According to Nishihara the book sold well and several editions were printed,⁴⁶⁵ but I have yet to come across any contemporary commentaries on the work.

On the day proofreading was completed, 16th October, 1918, Nishihara brought 11 people to an overnight trip at an *onsen* in Kanagawa Prefecture; they had contributed to the writing of the manifesto, and Nishihara treated them to the onsen trip in gratitude for their services.⁴⁶⁶ Although Nishihara's diary and autobiography named only 4 of the 11 people invited on this trip, it is known that they included Tsushima Ju'ichi, [津島壽一] Secretary to the Minister of Finance Shōda Kazue; Hosogai Seihō, [細貝正邦]⁴⁶⁷ a junior bureaucrat in the Ministry of Railways⁴⁶⁸ who had published several economic works for popular audiences;⁴⁶⁹ and Yamagata Akichi, [山縣明七] an economic journalist known mainly for his work *Decade of Finance*, [財政十年] where he evaluated Japan's financial policy since the Russo-Japanese War. The last of the named participants was Kishi E, [岸衛]⁴⁷⁰ which probably referred to the social activist and educator, Tetsuka Kishie. [手塚岸衛] It is clear that even though these men might not have participated in the actual drafting, the manifesto could claim to represent the views of an array of young

⁴⁶⁵ Nishihara, *Jiden*, 223; Yamamoto, ed. *Nikki*, 276-277.

⁴⁶⁶ Nishihara, *Jiden*, 223; Yamamoto, ed. *Nikki*, 276-277.

⁴⁶⁷ The surname is given as Hosomi [細見] in Suetake, but this actually repeated Yamamoto's mistaken reading of Nishihara's calligraphy. Nishihara's autobiography (*Jiden*, 223) gives the surname as Hosogai. [細貝]

⁴⁶⁸ Suetake, *Taishōki*, 403, n.8.

⁴⁶⁹ See Hosogai, Seihō. [細貝正邦] *Keizai Kiji no Yomi Kata* (Method of Reading Economic Articles.) [經濟記事の読み方] Tōkyō : Jitsugyo no Nihon Sha, [實業之日本社] 1917 and *Robata Keizai Ron* (Fireside Economics.) [爐邊經濟論] Tōkyō: Jikyokan Shoten. [自彊館書店] 1920 Hosogai also wrote a philosophical work on the practical application of the *Book of Changes* (or "I-Ching").

⁴⁷⁰ Again, Yamamoto and Suetake give a different name, "Kishi Machi" [岸街] to what is recorded in Nishihara's autobiography. No record of the existence of such a person can be found.

bureaucrats, journalists and social activists on the future blueprint for Japan and East Asia.

Nishihara visited various politicians during Terauchi's last days to try to convince them that an "externally Pan-Asianist and internally State Socialist"⁴⁷¹ policy needed to be adopted, but this advice fell on deaf ears. Other personages who were possibly of influence to the Manifesto included the State Socialist Shiba Teikichi, [斯波貞吉] and Pan-Asianist commentators Nagajima Ryūji [長島隆二] and Nakano Seigō. [中野正剛] Admittedly, from Nishihara's diaries, meetings with these personages, often to discuss political problems over long hours in the evening,⁴⁷² mostly took place after August 1919; in addition they organised a series of talks on stabilising the livelihood of the citizens [國民生活安定] on 17, 25 and 28th August, 1919.⁴⁷³ On 2nd September the group agreed to publish a comprehensive manifesto on the situation in Japan, China and Siberia.⁴⁷⁴ It is quite impossible however that Nishihara was unaware of these influential personages and their ideas before 1919; Nishihara's friendship with Shiba Teikichi provides one explanation for the inclusion of the term "State Socialism" in Nishihara's pamphlet from December 1917. It is possible that Nishihara's position as active organiser of this circle allowed him to influence Nakano Seigō, who would be much better known than Nishihara as a proponent of State Socialist ideology from the 1920s onwards. On the other hand there is scant record of who Nishihara's readers were. The book was ignored by contemporary commentators and the elite politicians seemed too embarrassed to admit in their memoirs to have read it. It is known that Nishihara sent copies of the pre-publication manuscript to many politicians and bureaucrats across the country, and that one copy reached Ozaki Yūjirō, [尾崎勇次郎] Director of the Home Bureau of the Hokkaido Executive. [北海道廳內務局長] A copy of this manuscript, bearing Ozaki's seal, is now in the collection of the Hokkaido University Library.

⁴⁷¹ Comment to the legal scholar Takahashi Sakue [高橋作衛] on 27th October, 1919, in Yamamoto, ed. *Nikki*, 294; see also *Nikki*, 247-248 for a similar comment to Hirata Tōsuke [平田東助] on 1919-10-05. Hirata had been one of the founders of the Japanese Cooperative Movement, having taken his inspiration from the German model during his studies there. See Ding, Weiwen. [丁煒文] *Riben Chanye Hezuoshe de Shiye* (The Enterprise of Japanese Production Cooperatives.) [日本産業合作社的事業] Changsha : Commercial Press, [商務印書館] 1940. 12.

⁴⁷² Yamamoto, ed. *Nikki*, 292, 304-305.

⁴⁷³ *Ibid.*, 290.

⁴⁷⁴ *Ibid.*, 292.

3.3 Nishihara's basic ideas

Nishihara makes no secret of his deep admiration for Germany and its methods of organisation, even though much of what he appreciated of Germany were the statist policies put in place after the economic crisis of the 1870s, rather than the phase of free trade and laissez-faire until the 1860s. Nishihara writes that "Germany has become the greatest power in the world in less than fifty years"⁴⁷⁵ and praises the achievements of Bismarck. "After the Napoleonic Wars, in 1848, an Englishman who visited Berlin was shocked by the poverty and lack of enlightenment in Germany and said that 'in terms of commerce and industry Germany will never be Britain's rival, but it could well remain an agrarian country.' Yet ever since that was said, the prosperity and wealth of Germany has humiliated the French and is now in close competition with Britain." Nishihara believes that the reason for Germany's emergence is its economic emphasis in state policy, or what may be called a "Doctrine of Economic State-Building" which empowers organised, centralised governance.⁴⁷⁶ "In Germany, economically the activity of the whole nation has been effectuated to the ultimate, production and consumption are at their reachable limits, and amidst it all, savings from labour costs have been transferred to productive use, the result being that producers and consumers are now bathed in deep benefits – all this demonstrates the essence of coexistence and mutual-benefit."⁴⁷⁷ Nishihara observes that the Germans have fought during "this historically unprecedented world war" with such strength because they act according to an economic strategy of state-building which makes organised, concentrated activity [組織的集中活動] its priority. As such it could guarantee the improvement of the livelihood of its citizens, and even contribute to the spreading of its culture on a global scale. In other words, Nishihara praised Germany for Rathenau's achievements, even though Rathenau was never mentioned in name.

In the opening chapters of the manifesto, Nishihara often quotes the German political theorist, Heinrich von Treitschke, who was known in the late 19th-century for his ultra-nationalist and militaristic advocacies; but Nishihara demonstrates that he is not always in accord with Treitschke, although it would seem that the latter's views on international competition had made an impact on him. Nishihara, when

⁴⁷⁵ Nishihara, "Keizai Rikkoku Shugi", 275.

⁴⁷⁶ Ibid., 279.

⁴⁷⁷ Ibid., 281.

making a case for the rationalisation and coordination of national economic activity for example, quotes Treitschke in that “War is a good thing, for it is the final judgment of god on whom constitutes the superior race.”⁴⁷⁸ Treitschke was well known in Japan for his magnum opus, *German History in the Nineteenth Century*, which Treitschke regarded as “a vehicle through which he hoped to inspire his readers with a new sense of dedication to nation and state.”⁴⁷⁹ The meaning was not lost on the Japanese audience.⁴⁸⁰ Nishihara, with his statist views as we shall see below, must have agreed with Treitschke’s views that “The State is not an academy of Arts or an Exchange; it is power.”⁴⁸¹ And that “State is a Society united for offensive or defensive war.”⁴⁸² Nishihara certainly absorbed the Social Darwinist view that “The world is a battle field, history the relentless struggle of nations, power the only guarantee of survival, national morale and military virtue its foundations.”⁴⁸³ Yet as we shall see, Nishihara condemns the narrow fixation on preparation for war at the expense of social improvement and general welfare.

The first chapters of Nishihara’s book are dedicated to analysing general global trends during and beyond the world war; a comparison with the table of contents of Friedrich List’s *National System of Political Economy* shows the arrangement to be similar. Nishihara notes that the war has drained Britain’s resources, with its national debt rising to the equivalent of forty billion yen, a situation comparable to the debt of nine billion yen incurred during the Napoleonic Wars. However, in terms of the financial burden of war, Nishihara notes that Britain’s situation in 1917 was actually better than a hundred years ago.⁴⁸⁴ Nishihara disagreed with Treitschke’s prediction in the late 19th-century that Britain’s dependencies would declare

⁴⁷⁸ Nishihara, *Keizai Rikkoku Saku*, 5.

⁴⁷⁹ Ibid., 30.

⁴⁸⁰ Tokutomi Soho, [徳富蘇峰] in a letter to Yamagata Aritomo, “discusses why he undertook the writing of his magnum opus, *Kinsei Nihon Kokuminshi* – ‘In Germany there is Treitschke’s *History of the German People*. In England Macaulay’s *History of the English People*. Both are the best textbooks in their respective countries. By revealing the truth about the past they serve to heighten the national spirit.’ ” 15 May 1918 : YAM 28; Pierson, *Tokutomi Soho, 1883-1957 : A Journalist for Modern Japan*, Princeton University Press, 1980, 330-36, In Takashi, Itō and George Akita, “The Yamagata-Tokutomi Correspondence – Press and Politics in Meiji-Taishō Japan”, 422.

⁴⁸¹ Treitschke, *Politik*, II, 357. Quoted in S. K. Padover, “Treitschke : Forerunner of Hitlerism”, In *Pacific Historical Review*, 4 (2), 1935 (6), 164.

⁴⁸² Ibid., 164.

⁴⁸³ Hans Kohn, “Treitschke : National Prophet”. In *The Review of Politics* 7 (4), 1945 (10), 437.

⁴⁸⁴ After the Napoleonic Wars, Britain’s national debt equalled 460 yen per head for its population of 17 million, and interest on national debt constituted 11% of government expenditure, which in turn comprised 20% of Britain’s GDP. Instead, at the end of the present conflict, Britain’s national debt would only comprise of 7% of its GDP, and interest on these bonds would only constitute 15% of government expenditure. Nishihara therefore believes that, given Britain’s prosperity after the Napoleonic Wars, it would be hard to predict British recession following the present conflict. (Nishihara, *Keizai Rikkoku Saku*, 4-5.)

independence when Britain was in trouble, and that Britain would thus be reduced, back to where it was, as a small island nation. Nishihara noted that improved deployment of manpower and resources from British colonies was already happening during the world war, and that this may result in a future tariff arrangement favourable to the “emergence of a Super Great Britain on the world scene.”⁴⁸⁵ Nishihara noted that Britain has learnt from Germany by reflecting on the shortfalls of its own economic system and would embark on new economic programmes, such as the establishment of a colonial commercial bank on the lines of the Anglo-Persian Bank. He argues that all indications point to higher integration between, even self-sufficiency amongst Britain and its overseas colonies following the war. This was a reasonable prediction, given the recommendation of the Paris Economic Conference for a post-war bloc economy consisting of the Allied Powers.

With regard to the United States, the war has delivered “a great leap forward in its industry and economy”. Nishihara notes that during the three years of conflict, not only has the United States repaid all of its 12 billion-yen worth of national debt, but has lent the equivalent of 12.4 billion yen to the Allied Powers. It is true that by 1917 Britain had become financial dependent on American loans; the United States had become an enormous source of financial support to Britain and France. Together with its ship-building capacity – the greatest in the world – the United States could spare something in the area of a million troops to the rescue of the British and French armies, which had been in peril after the collapse of the Russian front. Nishihara predicts that in future the United States would also embark on industrial rationalisation, with aiding its post-war overseas economic activities in mind. Already, in Central and South America, the United States had thrown in some 2 billion yen’s worth of investment to the detriment of British and German influence.⁴⁸⁶ With the new political situation in Russia, the United States might even come to its economic rescue and embark on a joint development programme of Russian Siberia, as well as making use of the resources that China has to offer. For Russia, Nishihara criticises the incomplete state of its state institutions as well as the

⁴⁸⁵ Ibid., 7-9.

⁴⁸⁶ Ibid., 10-12. This corresponds to Bukharin’s observation that “Only recently America was a debtor to Europe; in consequence of the war the situation changes rapidly: America’s debts are being repaid, and in the field of current accounts and short term credits America is becoming the creditor of Europe. [...] The continuation of the war, the payments for war orders and loans, later the immense demand for capital in the post-war period (when the reconstruction of fixed capital will have to be undertaken, etc.) will increase the financial importance of the United States still more.” (Bukharin, *Imperialism*, 145)

deficient intellectual enlightenment of its nationals. Nishihara refuses to predict what would happen in Russia given its present chaotic political state, but notes that the nation would be capable of becoming a major exporter of agricultural, forestry, mineral and other industrial raw materials, as well as becoming a huge market for products given its 170 million-strong population. Nishihara warns that one must be wary of Germany's propensity to make use of the chaos in Russia, following Germany's effective military victory over the country, whilst deploying the contacts established within Russia's political, economic and academic institutions, to enslave Russia as well as extend its influence to East Asia, something Nishihara believed to be highly probable. A drastic change in the geopolitical balance in East Asia is to be expected with the incursion of German power via a pacified, docile Russia.⁴⁸⁷

Bereft of the ability to foresee Germany's sudden military collapse and the harsh penalties that the Allied Nations would impose upon it, Nishihara expects that Germany, too, would enjoy increased prosperity after the world war. Nishihara notes what were in effect Rathenau's proposals for a customs union for 'Mitteleuropa', putting Austro-Hungary, Bulgaria and Turkey under German influence to form an "independent economic zone" with an "economic policy of self-sufficiency".⁴⁸⁸ Germany will "hold the cow by its ears", [牛耳を執る] in other words, strongly steer the economy in Central Europe, the Balkans and even down to Baghdad.⁴⁸⁹ Nishihara noted that Germany's capital reserves have grown during the three years of the war, from the equivalent of 900 million yen in October 1914 to 1.23 billion in July 1918. This, Nishihara believes, would make Germany one of the largest post-war economic entities with prosperous overseas trade. He noted that Germany's war expenditure, at the equivalent of 10 billion per annum, constituted half of the country's GDP, but reminded his readers that Japan's expenses during the Russo-Japanese war also constituted roughly the same ratio. Nishihara noted how the isolationist policy undertaken by Germany entailed the 'skilful manipulation of internal capital' which not only prevented the flight of capital from the country but also avoided the fate of a national bankruptcy. The "most praiseworthy aspect" of German wartime policy was of course Rathenau's "methods of organisational centralisation", which "effectuated to a fault" the power of forced or induced

⁴⁸⁷ Nishihara, *Keizai Rikkoku Saku*, 16-17.

⁴⁸⁸ Ibid., 13-14.

⁴⁸⁹ Ibid., 16.

industrial rationalisation. This, Nishihara believes, has trained Germany well for new, post-bellum economic warfare.⁴⁹⁰

Yet Nishihara, on the other hand, expresses deep pessimism for Japan's future.⁴⁹¹ "Not only is there lacking in Japan organisational unity as in Germany, but also the gentlemanly moral values of Britain".⁴⁹² He admits that the situation in Japan is not an exact duplicate of Germany and that a direct transplantation of German practices might be out of the question. Given however Japan's wartime expenses and the possibility of "inauspicious happenings" [不祥事] in East Asia, nobody could be ascertained that the "shining glory of the Empire could be forever maintained".⁴⁹³ Just like his mentor Kōmuchū Tomotsune, Nishihara blames Japan's plight on "indulgent individualism", [放縱なる個人主義] or more precisely, the doctrine of *laissez-faire*. In Japan, Nishihara observed that "Upright social mores are not found amidst a world concerned only with short-term profits, pleasures, and flowing extravagances, one that has neither control nor coordination in politics or the economy." This is whilst the "the implementation of constitutional politics", which was widely seen as something Japan could take pride in, "hardly touches the point" of national disorganisation and widespread poverty. Nishihara saw a Japan "filled with faults from top to bottom, where politicians concentrate on gaining popularity, manipulate the parliament over budgetary and political matters, and are unconcerned with the future orientation that the nation must adopt." Such men have "neither ambition nor leadership". [抱負なく又統制なし] The result is that there exists no "common track" [共通の軌道] for the various aspects of society, from politics to religion, education, the military, industry and even transport. Without an effort to arouse the self-consciousness of the citizenry, [國民的自覺] Nishihara feared that the nation's future would turn for the worse.⁴⁹⁴

Nishihara did not exhibit the typical signs of conservatism, for he was not stuck in nostalgia. He describes how, back in the Bakufu period, although samurai families and their overlords were bonded morally to each other, the general masses did not enjoy any sense of commonality. One reason to blame for this was Japan's feudalistic isolation from the world, which presumably meant that a nationalistic

⁴⁹⁰ Ibid., 14-15

⁴⁹¹ Nishihara, "Keizai Rikkoku Shugi", 275.

⁴⁹² Ibid., 282. "獨逸の如く組織的歸一なきは勿論、英國の如き紳士的道德を存するなく"

⁴⁹³ Ibid., 280.

⁴⁹⁴ Ibid., 275-276.

consciousness derived from a sense of “common interest” was prevented from emerging; the other was the overemphasis in traditional Confucian teachings on the relationship between the “rulers” and the “ruled”. There is hardly anything in Confucianism, notes Nishihara, to suggest how the “ruled” should associate amongst themselves. Ultimately the Meiji Restoration delivered the Movement for Freedom and Civil Rights, which brought Japan further and further away from realising “statist, national consolidation”.⁴⁹⁵ Nishihara criticises the self-centred nature of the Japanese whose advocacies of freedom are “without either bounds or criteria” [規矩もなく、準繩もなく] and constitutes “indulgence”. [放縱] Nishihara criticises how Japanese bureaucrats turn their spheres of responsibilities into little fiefdoms, that in agriculture, commerce and industry, “apart from contacting people within the same field, there is no coordination without, and everyone occupies and runs his sphere in his own way. [...] What everyone calls free competition,” in fact constitutes “the laissez-faire institution of mutual ruin”⁴⁹⁶ [放縱的共倒組織]

Nishihara thinks that the values of “Coexistence and mutual-benefit amongst nationals are the basic premise of the establishment of a state.” The foundation of a nation’s strength “is found in the thorough self-consciousness of its citizenry with regard to the values of coexistence and mutual-benefit.”⁴⁹⁷ Nishihara blames free competition, laissez faire and opportunism for economic wastage, mutual ruin and political short-sightedness.⁴⁹⁸ Here one finds strong parallels to Rathenau’s rationale for social reform, but Nishihara goes further than Rathenau against militarism, by criticising Japanese politicians for their narrow focus on military expansion. “Politics during the fifty years since the Meiji Restoration” have been “effectuated only with military force” and the “objective of benefiting the ordinary populace and making good use of resources and social welfare has been forgotten” by the men at the top; the result is that the people have been left to their own devices, and that fostered unrestrained self-interest and indulgence.⁴⁹⁹ Just as Shiba Teikichi wrote in 1892, Nishihara points out that Japan was mistaken in thinking of

⁴⁹⁵ Ibid., 277.

⁴⁹⁶ Ibid., 282-283. “農商工及各業間に於ける自我的接觸之外何等の統制連絡あることなく、各箇個人割劇獨行す”

⁴⁹⁷ Ibid., 277-278.

⁴⁹⁸ Nishihara, *Keizai Rikkoku Saku*, 143. “以て是れ自由競争なりと稱し、資本と勞力とを徒費して顧みず、恣くて益益複雑繁多なる組織と化し、共喰共倒を演じ、唯唯目前の小利を漁して他日の大利を忘れ、互に相賊ひ相害し、以て自ら得たりとなす。”

⁴⁹⁹ Nishihara, “*Keizai Rikkoku Shugi*”, 283. “近くは五十年來王政維新開国進取の国是は、唯だ武に依て發揮せられ、其武を發揮する目標たる民眾惠浴の根本とする利用厚生の活用を忘却し”

expenditure in national defence as mutually-exclusive to the welfare of its ordinary masses. The “consolidation of military assets in defence” requires the “support and backup” of “coordinated productive activities of the citizens”, contrary to the “passive” attitude of “territorial defence”.⁵⁰⁰

Tightly linked to defence capability was the issue of economic productivity, and Nishihara observed that the GNP of Japan was around 3 billion yen, or only 60 yen per head, whilst that of Britain was 442 yen, the US at 430, France at 370, Germany at 300. Nishihara believes that if Japan’s GNP per capita were to increase beyond 200, “thorough industrial policy would have to be implemented [...] and the eternal welfare of the nation’s citizens should be the object pursued.”⁵⁰¹ This demonstrates innovative use of statistics; the first estimates of Japan’s GNP were made in 1902,⁵⁰² and Nishihara here clearly articulates a GNP-based “growthism” which did not become mainstream until the 1950s. Nishihara then provides his panacea – State Socialism in the form of Neo-Confucianism. Nishihara observed that, “most importantly, the requirements of the new era lie in a coordinated, economic State Socialism, which is the improvement of welfare for a nation’s citizens according to the coordinated and united activities of the whole nation based on the principle of coexistence and mutual-benefit; real national policy should aim at nothing other than the stabilization of its citizens’ livelihood and its upward progress.”⁵⁰³

Nishihara presents his Neo-Confucian State Socialism as the fusion of the best in Eastern and Western civilisations. He noted that although it would seem difficult to assimilate the history and traditions of the empire with what he observed were “Christian-based doctrines of respect towards individual character” [人格を尊重] and ‘sanctifying of labour’, [労働を神聖とする] a new era has come where people have been awakened to the problems of disregarding individuality and labour rights. The opportunity has come for the essence of the “Imperial Way of the Orient” to be blended with Western Civilisation, so that the Oriental and Occidental Civilisations

⁵⁰⁰ Ibid., 282.

⁵⁰¹ Ibid., 284.

⁵⁰² “The first estimate of national income in Japan was made in 1902 (for the year 1900) by a scholar named Nakamura Kinzō. His report, titled *Teikoku jinmin no shotoku* (Income of the populace of the empire), was based on net output figures for various industrial categories, and it estimated national income at 1.8 billion yen. Just several years later Yamashita Tetsutarō, also an academic, estimated national income for the year 1904 by using the final expenditure method of calculation. [...] Their calculations were simple production aggregates, not related to one another through formalized accounting procedures.” (O’Byrne, *The Growth Idea*, 51.)

⁵⁰³ Nishihara, “*Keizai Rikkoku Shugi*”, 281. “要するに、新時代の要求は統制ある経済的國家社會主義即ち共存共益を根幹とせる舉國民の一致活動に依り國家國民永遠の福祉を増進する存し、真の国政は其國民の生活を安全にし、更に向上發展せしむるに外ならず。”

could be fused together to produce something that could surpass the ideologies of the day.⁵⁰⁴ In addition, “The Imperial Constitution must be employed flexibly”⁵⁰⁵ as to allow radical reforms to the socio-economic structure of Japan. In the place of rampant laissez-faire and individualistic indulgence, a new “fountain of vitality for the nation” is needed, [活力の源泉] and that would come from an organic method of blending and uniting Statism and Individualism. [國家主義と個人主義とを融合渾一]⁵⁰⁶ Although it is unclear where exactly Nishihara’s inspiration came from, it is known that his mentor, Kōmuchū, had also written pamphlets on Confucianism. Nishihara proceeds to elaborate on the Confucian reading of State Socialism –

“For one to live, [生] he must not be disloyal, and one lives if he is loyal; [忠] for one to exist, [存] he cannot be lacking in filial piety, [孝] for filial relations permitted his existence in the first place; for one to wish to live and to exist, he must not neglect mercy and justice, [仁義] and the path to mercy and justice lies in coexistence and mutual benefit. [共存共益] What therefore runs through the Strategy of Economic State-Building is the principle that survival means loyalty, filial piety, mercy and justice; [...] this is the new life, and the new spirit, [新生命新精神] and with it, the state, the family and the individual may be connected. Were this spirit to continue through the hundreds of generations of our descendants, it will not only be a lineage in blood, but will be the continuation of a principled, moral life, [道義的生命] which when perpetuated consistently, will reveal the real significance of life, and will bring into existence a living universe [活乾坤] where there would be wealth for the nation and prosperity for the family – in the hope of pursuing eternal welfare [永遠の福祉] for the state and its citizens.”⁵⁰⁷

Incidentally, compared to the handwritten manuscript of the *Doctrine of Economic State-Building* which probably dated from mid-1917, although Nishihara’s Confucian rhetoric was already present, the adoption of the term ‘State Socialism’ appears to have been an afterthought. In the handwritten manuscript Nishihara

⁵⁰⁴ Nishihara, “Preface”, *Keizai Rikkoku Saku*, 2. “即ち吾人は東洋の皇道を真骨髄として、之に配する西洋文明を以てし、東西文明を渾一融合し現の思潮を超越せる”

⁵⁰⁵ Nishihara, “*Keizai Rikkoku Shugi*”, 283. “帝國憲法を活用し”

⁵⁰⁶ Here Nishihara echoes Treitschke’s argument that “The state’s relation to the individual is totally different [...] The state is the true embodiment of mind and spirit, and only as its member the individual shares in truth, real existence and ethical status.” (Kohn, “National Prophet”, 429)

⁵⁰⁷ Nishihara, “Preface”, *Keizai Rikkoku Saku*, 4-5.

instead refers to "The Doctrine of Economic Coexistence". [經濟的共存主義]⁵⁰⁸ Nevertheless, this is still in line with Nishihara's more concrete advocacies, where he argues that the vitality [活力] and capability [能力] of the Japanese populace should be flexibly deployed and unleashed [活用發揮] according to the best methods. [最善の方法] Such aims were to be internally realised by the government administration of the daily necessities of the general populace; [全國民の生活必需品の管理] the regulation of commodity prices; [物價の調節] the rationalisation of methods of production, distribution and consumption; [生産分配及消費の方法] and the initiation of institutional improvement. [組織の改善] Externally he argues for the imposition of total state control over exports and imports, [外の輸出入に、総て国家的統制を加へ] in order to establish a policy of self-sufficiency. [以て自給自彊の策を立て]⁵⁰⁹

This would appear to be an extension of the analysis in his handwritten manuscript that the rise of Germany was due to Neomercantilism, [新重商主義] whereby on one hand Germany adopts Militarism and on the other implements a "Programme of Economic Independence", [經濟的獨立を計畫し] which entailed harsh customs duties, the protection of domestic industry and the encouragement of exports – thus demonstrating the influence of Friedrich List's protectionism and Walther Rathenau's 'self-sufficiency' programme on Nishihara's thinking. He argued for coordination among departments and sectors in order to foster "greater personal productive efficiency", [個人の生産能率を増進し] "the development of the national economy", [國民經濟の發展] and the "increase of popular income". [國民所得増加] These reforms, and the new diplomatic line with China, are ultimately justified by the prospect of renewed, intensified international competition after the war.⁵¹⁰

Nishihara's State Socialism would not have been in conflict with an imperial mindset. As in the German case, the leaders of the Social Policy School, "Adolph Wagner and Gustav von Schmoller, Treitschke's colleagues at the University of Berlin and equally influential in molding public opinion, shared Treitschke's faith in the German power state and its foundations. They regarded the struggle against English and French political and economic liberalism as the German mission and wished to substitute the superior and more ethical German way for the

⁵⁰⁸ Nishihara, "Keizai Rikkoku Shugi", in *Nishihara Kamezō Kankei Monjo*, vol. 29, 40-41.

⁵⁰⁹ Nishihara, *Keizai Rikkoku Saku*, 2.

⁵¹⁰ *Ibid.*, 43-44.

individualistic economics of the West.”⁵¹¹ Nishihara had obviously taken this up as Japan’s mission. Nishihara’s Neo-Confucianism reflects, and modernises, thinking first put forward in the ancient Book of Rites on good governance, for example the mantra “let not commodities lie wasted on the ground”. Nishihara’s ideas also appear to be closely-linked to the inter-war ideology of “Popularism” or “Minponshugi”, [民本主義] and gave it a materialistically-based interpretation. In Nishihara’s case, the ultimate incarnation of Minponshugi would lie in a materialistically-reinterpreted Neo-Confucianism that would lead to an economic panacea for Japan’s social problems, and that would be rationalisation, à la Rathenau.

In his book Nishihara deals with the reforms necessary to increase Japan’s productive power in each section of its society, in order to improve living standards and to provide the means for cooperation with China. From land reform to industrial coordination and the restructuring of the administrative machinery, Nishihara probably had in mind Friedrich List’s basic formulation that “the prosperity of a nation depended not upon the wealth that it had amassed but upon its ability to develop ‘productive forces’ which could create wealth in the future. These forces included scientific discoveries, advances in technology, improvements in transport, the provision of educational facilities, the maintenance of law and order, an efficient public administration, and the introduction of a measure of self-government.”⁵¹² Nishihara would be expounding upon each element in his manifesto, and the style of argumentation he employs is what is known in Gunnar Myrdal’s terms as “circular causative reasoning”, whereby all parts of a totality are related, and an alteration in one factor creates a loop of changes for all other aspects, ultimately coming back to effectuate a change in that original factor. Nishihara sees production and consumption not as a static balance but as being in a co-dependent and mutually-exacerbating relationship; he also sees the relationship between reforms in Japan and in China in such light. This thesis shall return to the comparison with Gunnar Myrdal in its final section.

⁵¹¹ Kohn, “National Prophet”, 433.

⁵¹² Henderson, *Friedrich List*, 177.

3.4 Economic Reorganisation

3.4.1 *Agriculture and Local Government*

Nishihara attacks the agricultural issue from two points – 1. Prices of rice and cereals, and 2. Inequality in land holdings. At the time of writing (mid-1918), Japan was almost self-sufficient in terms of rice consumption, which was partly the result of protective tariffs, although the pressure was mounting for that to be changed. Using “western academic methods” Nishihara concluded that for Japanese families, food expenses constituted 30-60% of its income, and that for most of the lower classes it tended to be around 60% - the lower one’s income, the higher the ratio occupied by food expenses. Nishihara then listed the average price of rice in Tōkyō and Ōsaka from 1897 to 1914, noting that it has risen from 12.136 yen to 17.722 yen, or a 46% increase.⁵¹³ Nishihara has compared the price of grain in New York, Paris and Berlin and noted a much smaller increase in price. Speculation in rice prices have destabilised industry and according to Nishihara, it was to blame for the loss of a steady, persevering sentiment amongst peasants, leading to a messy economic state in most agricultural families. Nishihara looked forward to the abolition of Japan’s protective tariffs on grain imports, so that rice from China, which matches the quality of third-class rice in Japan, could be imported. The main focus, however, still lies in the improvement of agricultural methods in Japan and a comprehensive land reform programme.⁵¹⁴

Nishihara criticised the government departments of lacking a basic grip on the facts of Japan’s agriculture.⁵¹⁵ What is clear in any case is that most families were working on plots too small for economical cultivation. Nishihara therefore recommended drastic land reform. Each landowner, unless he could prove himself capable of cultivating more than the allowed maximum, would be allowed at most two *cho*, including both paddy fields and farmland (or 4 *cho* where only farmland is concerned). The excess land would be purchased by the Provisional Agricultural

⁵¹³ Nishihara, *Keizai Rikkoku Saku*, 53-55.

⁵¹⁴ *Ibid.*, 64.

⁵¹⁵ According to the Statistics Department of the Interior Ministry, Japan has 2.88 million *cho* [町] of paddy fields [田] and 2.39 million *cho* of farmland [畑] in Japan. On the other hand, the Ministry of Agriculture and Commerce gives 2.917 million *cho* of paddy fields and 2.979 million *cho* of farmland – a difference of 37,000 *cho* of paddy fields and 589,000 *cho* of farmland. According to the Ministry of Agriculture & Commerce figures, each family has little more than half a *cho* each of paddy fields and farmland. A total of 1.98 million families, or 36.4% of all 5.45 million families work on farmland of less than half a *cho*, whilst 68,000 families or 2.48% have more than five *cho*. (*Ibid.*, 47-48.)

Rectification Bureau [臨時農業整理局] which would issue 2.6-billion-yen worth of land bonds, with 5% interest per annum, over a period of 26 years, to purchase excess land from landowners at a price equal to the average price in the years 1911-1915. Two *cho* of land would then be distributed to each peasant family, defined as a group of three men and women of the age of 16 or more who are able to engage in cultivation. The Bureau would also engaged in the process of redrawing the borders of the plots so as to eliminate plots of irregular sizes in order to permit large scale cultivation.⁵¹⁶ These stipulations, as we shall see, would have been even stricter than the provisions of the 1946 Land Reform, which allowed the landowner to retain up to 5 *cho* of farmland. Although the ASSP discussed the peasant problem in mid-1915, and their plight was noted by many of the speakers, none of the participants suggested land reform as the solution.⁵¹⁷ Nishihara's suggestions were therefore an original, radical vision with clear socialist inclinations.

What follows is the question of the kind of social system that would need to be erected to complement the vastly changed socio-economic structure of rural society; Nishihara's recommendations involved the widespread establishment of production cooperatives. Nishihara quotes the Tokugawa policy of neither killing the peasants nor making them live [殺さず生かさず] which in Nishihara's view, "kept the peace" for three centuries but stripped the peasants of any will to govern themselves; yet this was not the only reason for lacklustre local self-government. Nishihara criticised the Meiji policy of "Self-Government" in that it only focuses on administration and provides no mechanism for economic interaction, which explains why "Self-Government" for the localities has remained in a sickly, dismal state. Nishihara considers that it was a shame for the designers of the local Self-Government system, notably Yamagata Aritomo and the German legal advisor Lorenz von Stein, to have placed undue emphasis on reforms to political representation, whilst having totally overlooked [看過] the encouragement of economic, production cooperatives of the German type. Represented by Friedrich Wilhelm Raiffeisen (1818-1888) and Hermann Schulze-Delitzsch (1808-1883), they

⁵¹⁶ Ibid., 65-71.

⁵¹⁷ These discussions are contained in Shakai Seisaku Gakkai. (Association for the Study of Social Policy) [社會政策學會] *Shōnō Hogo Mondai*. (The Problem of the Protection of Small Tenants) [小農保護問題] Shakai Seisaku Gakkai Shiryo Shūsei (Association for the Study of Social Policy Historical Materials Compilation) Vol. 8 [社會政策學會史料集成第8卷] Tōkyō : Ochanomizu Shobo, [御茶の水書房] 1977.

could have provided real content to local self-government.⁵¹⁸ Since both men were mentioned by name, it is worth describing their movements at some length here.

In 1763–1815 serfdom was progressively abolished in Prussia, and it became easier for peasants to purchase land. These policies, however, “created a free but undercapitalized peasantry, and the agricultural price declines of the 1880s and later left some holdings burdened with mortgage debt.”⁵¹⁹ Michael Klein has put it more succinctly that “The so-called liberation of peasants had not only freed the rural population from the bonds of feudal serfdom, but released them into a socially extremely uncertain future.”⁵²⁰ Nishihara would have understood that this is exactly the situation in which the peasants would have landed themselves after land reform in Japan.⁵²¹ The common enemy of the cooperatives were the loan sharks – “annual interest rates in excess of 30 percent were not uncommon”⁵²² – whereas cooperatives typically offered loans at 3.5% plus 0.25% charge.

Raiffeisen’s Christian-inspired cooperative movement started in winter 1846–47, during the last famine in Central Europe. In the early years only the wealthy could join his organisation,⁵²³ but their contributions were declining by the 1860s, such that Raiffeisen reluctantly reorganised his cooperatives in 1864 upon the lines of the Schulze-Delitzsch banks to restrict the cooperatives’ functions to lending only, and offered membership to the “poorer, largely borrowing, sections of the population as well, while retaining the wealthy members”, whose deposits “were expected to be the financial backbone of the associations.”⁵²⁴ The hierarchy and

⁵¹⁸ Nishihara, *Keizai Rikkoku Saku*, 228–231.

⁵¹⁹ T. W. Guinnane, “Cooperatives as Information Machines: German Rural Credit Cooperatives, 1883–1914.” In *Journal of Economic History*, vol. 61, no. 2, 2001 (6), 368.

⁵²⁰ Klein, Michael. “The Cooperative Work of Friedrich Wilhelm Raiffeisen and its Christian Roots”, 5. <http://www.stiftung-der-genossenschaftsmitglieder.de/html/foerderp/archiv_pdf/Dr_Dr_Klein-IRU0109_en.pdf> Last visited 26th April, 2018.

⁵²¹ Some debate exists on whether Raiffeisen or Schulze-Delitzsch should be credited for having started the first cooperative, but the nature of their cooperatives remained different. Schulze-Delitzsch’s cooperatives, which were first founded in the 1840s, focused on urban artisans, “handworkers,” and small shopkeepers, and were rare in rural areas, but “often served agriculturalists in the absence of rural cooperatives”; this is whilst Raiffeisen’s cooperatives were “intended to be, and remained, primarily rural.” By the late 19th century they had evolved into two bitterly-competing systems, and Nishihara’s inability to distinguish the two seemed ironic in this respect. (Guinnane, “Information Machines”, 369.)

⁵²² Guinnane, “Information Machines”, 368.

⁵²³ “Raiffeisen, then mayor of a rural community in the Westerwald (Weyerbusch), [...] succeeded in obtaining the support of still wealthy citizens for his project of paying existing cash into a fund used for the purchase of grain to be given as a loan to those suffering from the famine. He later built a community bakery; the bread produced was distributed amongst the needy against a promissory note.” (Klein, “Cooperative Work”, 4.)

⁵²⁴ Ibid., 5–6. Guinnane, in “Information Machines”, 369, further adds that “Prior to the 1889 cooperative law no German cooperative could have limited liability. After 1889 many Schultze-

financing of the cooperatives was highly centralised.⁵²⁵ The Prussian State Cooperative Central was founded in 1895. “The bank had to pay the government three percent per year for invested capital.”⁵²⁶ During a debate at the Prussian House of Deputies one member remarked, in a similar way to views that Nishihara would air in his manifesto against the Bank of Japan and the Bank of Industrial Encouragement, that “for the first time, the state recognises that the Reichsbank is unable to satisfy the credit needs of agriculture and the handicrafts, and moreover, the state recognises that these two sectors, agriculture and handicrafts, have the same right to have their credit needs met by the state as do heavy industry, large-scale trade, or the financial markets.”⁵²⁷

Nishihara argues that the present ‘legal omnipotence’ and ‘coercive powers’ of the ‘self-governing’ townships and villages, itself an improper transplantation of German practice, should be scrapped.⁵²⁸ By this he means that townships and villages have taken up too many responsibilities ranging from policing to education, and has little attention to spare for economic development. Nishihara argues instead that production cooperatives should be made the basic unit of local self-government⁵²⁹ and that some of the power could be taken away from the township and village authorities, whilst everyone should be assigned to a cooperative according to his occupation and geographical location — an idea which is not a million miles away from the “People’s Communes” of Maoist China. Nishihara notes that most of these cooperatives have limited financial means. This makes an average cooperative roughly akin in strength to an entrepreneur in the lower-middle

Delitzsch cooperatives switched to a limited-liability form. All Raiffeisen credit cooperatives [...] retained unlimited liability even after 1889.”

⁵²⁵ “At the national level each group had a single organisation, although the role of that organisation differed across groups. The rural cooperatives, in addition, developed regional ‘centrals’, specialist cooperative institutions that provided services to their primary cooperatives in a specific area. [...] Central cooperative banks accepted deposits from and made loans to cooperatives in their region. [...] The Schulze-Delitzsch group was suspicious of cooperative centrals. Many of its members used the Deutsche Genossenschaftsbank von Soergel & Parisius (DGSP) for purposes analogous to those performed by a central bank in the rural group.” (T. W. Guinnane, “State Support for the German Cooperative Movement, 1860-1914.” In *Central European History* vol. 45, no. 2, 2012 (6), 213-214.)

⁵²⁶ Ibid., 218.

⁵²⁷ Ibid., 220.

⁵²⁸ Nishihara, *Keizai Rikkoku Saku*, 235, 241-243. Nishihara accused the localities of exhibiting tendencies of “Legalist Omnipotence of Local Self-Government” [法治的自治萬能主義] and “Omnipotent Coercive Powers of the Townships and Villages”. [町村萬能強要主義]

⁵²⁹ Ibid., 246. “地方自治の基礎を産業組合に求むる”

ranges.⁵³⁰ Nishihara recommends that the Imperial Bank of Industrial Encouragement [帝國勸業銀行] step in to assist the Cooperative Movement.

By suggesting that production cooperative become the new economic and administrative foundation of the Japanese state, Nishihara brought the Cooperative Movement to a level beyond the imagination of its German founders; and it would have been a surprising development, given the strained relations between Schulze-Delitzsch's social-liberal inclinations and the Bismarckian establishment. "The Schulze-Delitzsch group used the term "state socialism" (*Staatssozialismus*) to abuse any cooperative group that accepted government assistance, thus (unfairly) equating Raiffeisen with Lassalle."⁵³¹ Yet for Nishihara, the Cooperative Movement **was** State Socialism. Nishihara's views echoed precisely those of Ferdinand Lassalle, who advocated the establishment of "Productive Associations" benefitting from "the advance of capital by the State – first at low interest, and eventually free – because he regarded the working classes as the greatest power in the State, and as having a peculiar claim upon its resources."⁵³² Nishihara also probably saw in 'self-government' the possibilities of Lassallian 'self-actualisation'.⁵³³

Nishihara's inspiration might have come from Hirata Tōsuke, [平田東助] ex-Minister of Agriculture and Commerce and an ally of Yamagata Aritomo's. He had studied in Germany and pioneered the Cooperative Movement in Japan during the 1890s. During much of 1916 he was lobbying, along with Gotō Shinpei, for Terauchi Masatake to be Prime Minister; Nishihara had met Hirata on a number of occasions. Nishihara believed that with the establishment of truly self-governing and economically-potent Cooperatives, the *gun*, [郡] or 'county' authorities below the Prefecture would be ripe for abolition. This was not Nishihara's original idea, and indeed were parallel to that of Hara Takashi, leader of the *Seiyukai* parliamentary majority. Hara's reasons to request the abolition of the *gun* was however totally different. Throughout the 1900s, Hara aimed at breaking up Yamagata's hold in the

⁵³⁰ With both Credit and Production Cooperatives having total deposits of 38.85 million yen, and they have handed out loans worth 37.881 million yen. This translates as an average of 7,700 yen in assets for each cooperative, or 61 yen per capita. (Ibid., 182-183, 244-246.)

⁵³¹ "Schulze-Delitzsch was one of Bismarck's *bêtes noires*. [...] In their early days, Schulze-Delitzsch's cooperatives suffered politically motivated harassment [...] The real reason [...] was his position as a leading liberal figure." (Guinnane, "Cooperative Movement", 215.)

⁵³² Dawson, *Ferdinand Lassalle*, 205.

⁵³³ "With this co-operation the labourer will become his own undertaker, and the distinction between wages and profit will disappear, and the produce will go to the producer. [...] The labourer will be doubly-benefitted, for he will secure his produce now, and he will receive all the advantage that will accrue as labour becomes more productive." (Ibid., 205.)

rural areas,⁵³⁴ and even made a speech where he said that “The major issue behind the abolition of the gun system is the complete destruction of the Yamagata faction. I intend to abolish the *gun* system and ruin that faction with one stroke.”⁵³⁵ Nishihara’s proposal to strengthen the Cooperatives would no doubt have run afoul of Hara’s continued attempt, until success in 1921,⁵³⁶ to undermine Yamagata’s local network of support and to foster the growth of townships and villages, levels of local authority susceptible to *Seiyukai* influence, even though land reform might deprive the Yamagata-supporting landowners their erstwhile economic influence.

3.4.2 Industrial Reorganisation

In April 1905, the Minister of Agriculture of Commerce Kiyoura Keigo [清浦奎吾] spoke on the structural problems in the Japanese economy, one of which was the dominance of small-scale cottage industries; Japan was able to compete with the west only because its wages and standard of living remained low. He warned that “in the future neither prices nor wages will remain low. Therefore, overcoming European and American productivity will require a new strategy built upon a major revolution in the organization of Japanese industry.”⁵³⁷ Nishihara’s prescription thirteen years later responded to a much more optimistic situation in Japanese industry given the wartime boom, yet an industrial “dual structure” had begun to emerge, with the aforementioned cottage industries at the bottom and the zaibatsu-led modern industries at the top. Nishihara’s task would have been to come up with

⁵³⁴ “Yamagata faction’s regional basis of power [which] was tightly knit and extensive. [...] To Yamagata, the principal architect of the regional structure, the *gun* were the crux of his idea of ‘self-government’. Instead [...] the function of the gun was to assure domestic stability. Men of ‘wealth and reputation’ who shared Yamagata’s view of the Meiji state were appointed *gun* chiefs; although they were technically under the prefectural governors, they held broad administrative and emergency police powers (as in the 1890’s) to assure orderly local government by interfering at the polls. [...] Moreover, they dominated the semi-bureaucratic organisations such as agricultural associations (*nōkai*) [農會] and industrial cooperatives (*sangyō kumiai*). [産業組合] These organisations, which were established at the turn of the century, received government subsidies [...] hence they grew and expanded with nourishment from the bureaucracy. [...] The *gun*, to Hara, were becoming unnecessary in the Meiji structure. [...] the five-hundred-odd *gun*, lacking the power to levy taxes, were becoming ineffective. Furthermore, many functions of the *gun* were being pre-empted by towns and villages. Industries and public works, for example, were flourishing and being controlled locally, quite apart from *gun* supervision. In Hara’s view, therefore, the towns and villages should be permitted to grow.” (Najita, Tetsuo. Hara Kei in the Politics of Compromise. Cambridge (Massachusetts) and London : Harvard University Press, 1967. 46-48.)

⁵³⁵ Hara, *Diaries*, vol. 3, 16-17. Quoted in Najita, *Hara Kei*, 49.

⁵³⁶ Najita, *Hara Kei*, 55.

⁵³⁷ Tokutomi Iichiro, *Hakushaku Kiyoura Keigo den*, Tokyo : Hakushaku Kiyoura Keigo den kankōkai, 1932, vol.1, 667. Quoted in W. Dean Kinzley, *Industrial Harmony in Modern Japan : The Invention of a Tradition*. London and New York : Routledge, 1991. 49.

a solution to increase the economy of scale at the bottom, and to fuse together the upper and lower halves of the industrial structure in an organic way.

What Nishihara suggested was the creation of production cooperatives in agriculture and for cottage industries, which would then be integrated into the national supply of commodities by a semi-nationalised Imperial Commodities Corporation in which they would have some degree of control; they would be subject to the supervision of government agents tasked with ensuring the quality of export products; and they would be better linked to financial institutions that would provide sources of liquidity (see section 3.3.4). At the very top, a newly created Ministry of Commerce and Industry (see section 3.5.2) would coordinate industry at the policy level, whilst an Imperial Industrial Association [帝國工業協會組織] led by powerful figures [朝野有力者] would be established to engage in 1. Researching and encouraging methods of industrial improvement and 2. Establishing “Industrial Apprenticeship Schools” [工業徒弟學校] to provide one-to-two-year courses for 100,000 graduates per annum, thus providing Japan a new skilled workforce. This effectively summarises Nishihara’s organisational revolution for Japanese industry.

The first of these advocacies responded to the wartime export boom. Nishihara observed that the figure of exports worth 2.63 billion yen and internal sales of 1.6 billion yen was achieved in 1917. The export surplus up to April that year was 2 billion yen. Of these exports, most were military procurement, along with significant increases in silk products and fabrics. Japanese exports now went to places like Siberia, India, Southeast Asia and South America. Yet Nishihara warned that the export boom might be over as quickly as it had begun, noting that Japanese products were detested for their inferior production quality.⁵³⁸ Nishihara also pointed out a number of problems with Japan’s industrial structure, using the textiles industry as an example. He notes that although Japan had a much higher ratio of fixed industrial capital, Japanese production costs were significantly higher than in the west.⁵³⁹ This is whilst the prosperity of the textiles industry had effectively bankrupted the rural home-woven textiles industry, leading to financial ruin in the villages.

⁵³⁸ Nishihara, *Keizai Rikkoku Saku*, 78-79.

⁵³⁹ The cost of one loom in a spinning machine was 50 yen in Japan compared to 2 pounds and 10 shillings, or 24 yen in Britain. Japan was heavily dependent on imported machinery, and yet, “arrogant legislators” have imposed protective tariffs on such machinery, increasing production costs even further. (Nishihara, *Keizai Rikkoku Saku*, 82-83.)

Industrial reorganisation was obviously sorely needed. Just like Jean-Baptiste Say, who argued that a problem in demand reflects a problem in the supply structure, Nishihara believes that the present inflation crisis can be managed by rectifying problems in production. The proper management of production may furthermore allow Japan better chances of success in future economic warfare.⁵⁴⁰ At present, Nishihara observes, the lack of coordination between producers, [生産者] go-between merchants [仲介者] and consumers [消費者] have led to a conflict of interest and mutual ruin. The state must therefore step in to mediate, and this entails more than “threatening one or two wicked businessmen or superficial law enforcement by the police”.⁵⁴¹ Nishihara notes the existence of new department stores but calls them, and particularly the commercial advertisements they produce, a source of corruption by encouraging ‘non-productive consumption’ and wastage on luxury items. Nishihara instead proposes emulating the German War Corporations model whereby production and consumer cooperatives would be coordinated by a “semi-governmental and semi-private” mediating institution.⁵⁴² Products taken directly from the source of production would be sold at department stores to be erected in town centres; and thorough coordination be put in place amongst them.

Nishihara notes the rampant problem of corruption in government purchases, and he calls the businessmen who treat government officials to gifts and expensive dinners in return for contracts “a parasitic, cancerous tumour”. [寄生蟲的癌腫] Nishihara recommends rectifying the problem by establishing an Imperial Commodities Corporation, [帝國商品株式會社] modelled upon the German KRA and its War Corporations, though instead of having one corporation for each raw material, Nishihara suggested having one single corporation covering all transactions, especially government purchases. Nishihara suggests that the initial capital of the Imperial Commodities Corporation be 10 million yen, with each share being priced at 50 yen. Each production cooperatives should hold a maximum of 50 shares, whilst the government, or the Imperial Bank for Industrial Encouragement, should hold just under one-fourth of the total shares – the corporation would therefore be in principle governed from below. Although the President of the Corporation would be appointed by the government, its Managing Director would

⁵⁴⁰ Ibid., 189.

⁵⁴¹ Ibid., 191.

⁵⁴² Ibid., 193-194.

be elected by the shareholders, i.e. the production cooperatives. The Corporation should establish branches around the country and should receive commission for government purchases. Businessmen who resort to corrupt methods of securing contracts would be permanently excluded from the list of government suppliers. Dividends would be capped at 10% per annum, and where the dividends exceeds 10%, one third of the money should go to the Corporation's deposits, another one-third to public enterprises, and a final one-third as bonuses for its staff.

As such the arrangement for the Imperial Commodities Corporation differs from the KRA's War Corporation's interdiction on distributing profits. The recommendation of town-centre department stores is also new; rather than the department store being run by a single company, Nishihara recommends a set up similar to a shopping mall, with the participation of 'specific businessmen' [特定商人] who would run no more than two shops for the same kind of commodities. The department store would require these businessmen import their commodities directly from the production cooperatives rather than from other businessmen, and that they should keep detailed accounts; these, and the prices at which the commodities are sold, would be checked by a team of Market Administrators. [市場管理者] The department stores should be built with low-interest loans from the Bank of Japan, at locations where preferably a connection to warehouses and ports could be established, in the form of an electric railway for the movement of goods.⁵⁴³

Nishihara makes a further recommendation that would have increased the mobilizational effectiveness and competitiveness of Japanese industry – amounting to transforming it into an “economic warfare state” that would triumph, not only in total war mobilisation, but also in peacetime competition. He suggests that the government set up purchasing cartels for industrial raw materials [工業原料共同購買の組合] which would have agreements with shipping companies, and which would coordinate with the local production cooperatives.⁵⁴⁴ All export trade should come under the supervision of Export Cartels [輸出組合] which would have five subdivisions for China, India, Southeast Asia, Europe and America, and would set up branches at important ports with agents stationed in Japan and around the world to investigate trade conditions; the government should appoint Overseas Trade

⁵⁴³ Nishihara, *Keizai Rikkoku Saku*, 200-202.

⁵⁴⁴ Ibid., 91.

Commissioners [海外商務官] who would be connected to the Export Cartel and provide incentives or recommendations to domestic producers. The transport overseas of such products would be monopolised by an Imperial Steam Navigation Corporation. [帝國汽船]

Agents of the Export Cartel would also have powers to inspect the quality of products to prevent and report on any instances where products of poor quality [粗製濫造] are exported, or the presence of immoral commercial practices. [沒得義の行為]⁵⁴⁵ Nishihara clearly understood the poor reputation of Japanese export products. The advocacy for Export Cartels is particularly important, for it shows that even if Nishihara and his superiors Terauchi and Shōda had total war mobilization in mind, it was not mutually exclusive of an emphasis on improving the civilian economy; in fact, military mobilization does not seem from his text to have been the priority, and indeed could not have been the emphasis if the text needed to be convincing to circles outside the military, i.e. commercial and political interests. Just like Stalinist industrialization a decade later, Nishihara's organised economy was well-packaged as something solely for civilian ends and peacetime economic competition.

On the other hand Nishihara's advocacies would have deeply offended commercial interests. Nishihara's economic radicalism, which is unparalleled in Japan for 1918, lies in his fusion of what James C. Scott would have called "ultra-modernist" policy aims for statist coordination of capital, production and consumption, and an emphasis on peacetime commercial warfare, with an ancient Confucianist urge to eliminate the profiteering and politically-dilettante 'middlemen' in commerce; in other words, it would have entailed the abolition or at least the imposition of severe hindrances on the growth of the bourgeoisie, and poses the question as to whether one was even needed. Nishihara's recommendations for economic reform was aimed at altering the structures of supply; he notes that in different rice markets in Tōkyō a substantial difference in prices can exist, and that such irrationality should be eradicated by means of coordinated, centralised purchasing and retail. Nishihara did not advocate more nationalization; what he envisaged was exactly what Rathenau also advocated – "cartels under state coordination within free market" – and went one step further than Rathenau by suggesting that all production cooperatives, in other words the

⁵⁴⁵ Ibid., 119-120.

whole country's emancipated peasantry, be brought into this new state-coordinated commercial network, and also participate in its management. Given the State Socialist tendencies of Nishihara's advocacies, it might be strange that he rarely focused on the rights of labourers; what was probably on his mind, however, was that rather than piecemeal reform to improve working conditions or proposing pay rises, he would attack the basic problem of the ownership and management of the 'chain of commodities'.

It is evident that Nishihara had planned his Sino-Japanese economic collaboration on the shaky assumption, that his proposals to compress private enterprise and to replace it with a massively expanded state sector – so that all of the surplus would have been captured by the state and reinvested in China or other parts of the Japanese empire – would actually be successfully carried out. To have pushed forward such far-ranging reforms Nishihara, Terauchi and the Genro would have needed a mobilizational base and a grip over the legislative in totalitarian terms. Whether there was in Nishihara's programme a hidden political agenda to somehow remove the socioeconomic basis of the leading democratic parties – for example those under Hara Takashi and Kato Taka'aki – by eradicating the commercial class is beyond the scope of the discussion here.

The apparent problem with Nishihara's economic reform is that it would have created a monopoly of enormous dimensions, and that the object of such a monopoly would have been to suppress rises in prices or at least to balance out regional price differences. It would have attempted to suspend market mechanisms, and it might not always work like that. One possible result would have been production cooperatives, or leading industrial producers, bonding together to force prices up for government purchases, as they did in Germany during the war.⁵⁴⁶ The other problem would have been the gigantic bureaucracy entailed in the creation of these government cartels and their coordination of the cooperatives.⁵⁴⁷ Given

⁵⁴⁶ In Germany initial "Skepticism regarding governmental control and the feared loss of their monopolistic position was accompanied by hesitant reaction to the statistical inquiries of the KRA [...] However, as soon as it became clear that earnings were in no way threatened by the communal war economy, and that considerable latitude was in fact possible, particularly with regard to the forcing up of prices, this resistance disappeared. Even though the KRA championed the protection of 'natural pricing' through numerous decrees [...] there were sufficient loopholes." (Krajewski, *World Projects*, 151)

⁵⁴⁷ For the KRA during the world war, "What comes of this rampant organization in the meantime – including statistical inquiries- is massive paperwork."⁵⁴⁷ The war corporations had to "rely on the latest electric data processing on the basis of punch cards, namely, the tabulation and addition machines of the DEHOMAG, the German subsidiary of the Herman Hollerith Tabulating Machine Co." (Oberliesen 1982, 232. Quoted in *Ibid.*, 150;)

the less than optimal handling of statistics by Japanese government agencies as even Nishihara himself had pointed out, such increased bureaucracy would either have, in the optimistic case, forced Japanese bureaucrats to treat their statistics more seriously; or in the pessimistic case, as would later happen in many Communist countries, result in statistical chaos, target figure manipulation, and even greater economic wastage.

3.4.3 *Educating of the Workforce*

The second of the advocacies, for the establishment “Industrial Apprenticeship Schools”, made somewhat more sense and was in response to the large surplus of agricultural population as well as the unskilled, low-productive condition of much of its industrial labour force. There was a huge surplus of agricultural population.⁵⁴⁸ Nishihara notes how Japan’s industrial population is formed mostly of unskilled, female labour, whose low productivity is not helped by the harsh, exploitative conditions in which they have been placed.⁵⁴⁹ As Carl Mosk points out, “developing the educational system so that demand for skilled labour does not substantially outstrip supply”⁵⁵⁰ constituted one of the Meiji government’s successful industrial policies, and Nishihara was intent on expanding it. Most Japanese at the time could only afford to attend Primary education, which the government provided free-of-charge. Nishihara suggested that the curriculum of the Primary Schools be adjusted to local needs; presumably this allowed Primary School graduates – who would have been teenagers given Nishihara’s suggestion that students enter education at no less than six years of age, so as to be mature enough for the education they receive – better grasp of the work offered to them by production cooperatives.

Nishihara proposes that the so-called “Higher Primary Schools”, typically attended by those who failed to become part of only 70,000 people who enter Secondary School,⁵⁵¹ be abolished and replaced by “Industrial Supplementary

⁵⁴⁸ Nishihara notes that it would only become more serious should it continue to grow at 1.25% per annum, reaching 100 million by the year 1963. Nishihara observes that Japan’s industrially-employed population, at only 1.12 million, scattered amongst 19,047 factories each with more than ten staff, represents only 2% of the overall population, a much lower ratio compared to 45.8% in Britain, 31.7% in France, 41.6% in Belgium, 40% in Germany and 24.1% in the US. Nishihara calculates that of Belgium’s 7.5 million population, there must have been some 3.1 million employed in industrial activity. (Nishihara, *Keizai Rikkoku Saku*, 79-81.)

⁵⁴⁹ Ibid., 84. “無智従順なる男女職工を低廉なる勞銀の下に驅役し、其膏血を絞りたる”

⁵⁵⁰ Mosk, Carl. *Japanese Industrial History – Technology, Urbanization and Economic Growth*. New York : M. E. Sharpe, 2001. 182.

⁵⁵¹ Nishihara, *Keizai Rikkoku Saku*, 216.

Instruction Schools” [實業補習學校] offering two or three-year courses, the costs of which would also be borne by the government. Nishihara notes that at present some 440,000 students attend Higher Primary Schools, of which 250,000 receive instruction on normal academic subjects – a waste of time and resources. A reformed system with “Industrial Supplementary Instruction Schools” would provide useful occupational education for some 480 thousand students at any given time, whilst female students would also receive instruction on home economics. The budget for the presently-existing “Industrial Supplementary Instruction Schools” totalled 800,000 yen, or just 1.7 yen per student, compared to 7.62 yen for every Primary School student. Nishihara argues that if the system was to be made national and compulsory, it would entail an increase of the education budget by 6.5 million yen, but argues that such an increased investment could drastically alter Japan’s future prospects, just as Primary School education had been credited for Prussia’s military victory over France.⁵⁵² Nishihara recommends the establishment of Youth Associations [青年會] as the ‘final link between education and society’, and its membership would be compulsory for graduates of the Industrial Supplementary Instruction Schools until they reach the age of 20. These Youth Associations would be chaired by the principal of the industrial school and would provide occupational training in collaboration with local production cooperatives, as well as general instruction on moral values and civic duties in order to provide ‘assistance to local public projects’. [地方公共事業を後援する] Nishihara ends the section with a plea that education reform concerns the future prospects of three million young people, and is an urgent, important matter.

The problem with Nishihara’s analysis, however, was that the agricultural population might not have had such a large surplus as he imagined. Loren Brandt argues that instead of the usual analysis that there was “disguised unemployment and underemployed workers in the rural sector for whom marginal productivity was less than the wage”, with such wages set “institutionally” rather than being determined by the market,⁵⁵³ real wages actually rose 125-150% between the mid-1880s and the late 1920s, and by the 1930s “were almost double their level 40 years earlier” and implied “a growing relative scarcity of labour.”⁵⁵⁴ This is due, firstly, to

⁵⁵² Ibid., 209-220.

⁵⁵³ Brandt, “Interwar Japanese Agriculture”, 268.

⁵⁵⁴ Ibid., 270.

the growth of non-primary sector employment by 9-10 million from the mid-1880s to 1940, beginning at 7.06 million in 1886, reaching 10.19 million in 1915 and 12.54 million in 1920 – a growth of more than two million during the later phase of WWI alone. This is whilst primary sector employment dropped from 16 million in 1910 to 14.32 million in 1920, and 13.675 million by 1925.⁵⁵⁵ The drop of two and a half million, or 15% of the agricultural workforce, suggested that labour shortages would exist throughout the 1920s and meant that the full benefits of increased government investment in R&D in high-yield rice varieties and land infrastructure, in addition to improvements in weeding, insect control and water management, would not have been yielded.⁵⁵⁶ This is one factor which Brandt argues explains why interwar Japanese agricultural growth almost dropped by half, from slightly less than 2% for nearly 25 years before WWI.

To begin with, Nishihara doubly overestimated the agricultural population, at 30 million rather than around 15 million; he suggested that the surplus 14 million, for which there would not be enough land to redistribute to, be transferred to industrial employment with the help of vigilant industrialisation policies.⁵⁵⁷ Had Nishihara's proposals been implemented, and his wide network of industrial schools been set up, the problem of agricultural labour shortage would have intensified with severe implications on wages and prices of agricultural products, notably rice – which became even less competitive than it already is, in the face of increased imports from Korea, Taiwan and “Monsoon Asia”: Siam, Burma and Indochina. This is whilst it is questionable whether 14 million people could be accommodated in industrial employment. Even if it could, the downward pressure on wages would have intensified labour problems. The competitiveness of Japanese agriculture would not be revived unless there was widespread mechanisation and employment of other labour-saving methods. This would not be possible unless Nishihara's vision succeeds in the total collectivisation of agriculture in the form of production cooperatives, to which the government and other credit institutions can provide funding for improvement in agricultural technology. Rural electrification would have been helpful to this end, and as we shall see in the next section, this is something that Nishihara probably would have realised in time.

⁵⁵⁵ Table 6 “Sectoral Employment”, in *Ibid.*, 270.

⁵⁵⁶ *Ibid.*, 278-286.

⁵⁵⁷ Nishihara, *Keizai Rikkoku Saku*, 67.

3.4.4 *Transport & Infrastructural Improvements*

In the years before Nishihara's manifesto, the main source of contention in transport policy was the question of converting Japan's railway gauge. This had been decided in the Meiji era by British engineers as 3 feet 6 inches (1,067mm) – commonly used in British colonies such as South Africa, hence the term "Cape Gauge". Increased traffic by the end of the Meiji era prompted some to advocate conversion to the international standard gauge (or 'broad gauge') of 4 feet 8 ½ inches (1,435mm), as used in Korea, China, Europe, the US and Britain itself. The Manchuria railways were originally constructed to the Russian gauge of 5 feet. (1,524mm) Following Russian defeat in the 1904-5 war, Japan converted the South Manchuria Railway to the standard 1,435mm gauge as used in Korea and elsewhere in China.

"By late 1909, it was widely publicized that the Second Katsura Cabinet was planning to convert Japan's trunk lines to the broad gauge. [i.e. 1,435mm] According to this plan, which army leaders had been urging since the 1890's, one line would extend from Tōkyō in the east to Shimonoseki, on the western tip of Japan. Another would stretch from Aomori at the northern tip down along the Japan Sea coast, again to Shimonoseki. Cars with strategic military goods would be brought to Shimonoseki, loaded onto barges, transported across the Japan Sea, and fitted directly onto the broad-gauge lines already there in Manchuria. In the reverse process, cars would bring raw materials from the mainland and be channelled to key industrial centres. Katsura, Gotō and the military planners had urged nationalisation of the railroads precisely to lay these broad-gauge lines."⁵⁵⁸

With the benefit of hindsight, the debate was totally needless – within two decades of the debate, containerisation would have become widespread practice in the freight transport industry, and containers could fit as well on narrow or broad-gauge trains as well as ships, removing the need altogether for a broad-gauge line designed for Continental freight traffic.⁵⁵⁹ At the time, however, Hara Takashi

⁵⁵⁸ Najita, *Hara Kei*, 71.

⁵⁵⁹ Incidentally, the proposals for a broad-gauge railway would morph into the present-day Shinkansen system. During the late 1930s, engineers at the South Manchuria Railway and Japanese Ministry of Railways devised plans for an undersea tunnel between Japan and Korea, and land in Japan was acquisitioned for constructing a broad gauge, high-speed electric railway connecting Tōkyō to Peking and hence onto Singapore and India – otherwise known as the "Great East Asian Transversal Railway". [大東亞縱貫鐵道] The acquisitioned land was later re-used in the 1950s for constructing the Shinkansen system, which opened in 1962 in preparation for the Tōkyō Olympics. Presiding over this project was the Director of the Japanese National Railways,

opposed the plans, fearing that the budget for local railway lines that his Seiyukai party had promised the local electorate would be diverted to building the broad-gauge mainline. Hara argued that “the government should concentrate on extending already existing narrow-gauge lines to all sections of the country”,⁵⁶⁰ and called on Katsura to tell him that “There is a great deal to be done in the area of transport and harbour development”.⁵⁶¹ Nishihara’s views on transport policy would be similar to Hara’s, though the rationale was somewhat different. Nishihara argued, on the basis of a comparison of the tonnage per mile carried on Japan’s and other countries’ railways – 560,000 tonnes in Japan compared to 1.25 million tonnes in the US and 1.2 million tonnes in Germany – that the priority for railway development in Japan was better connectivity between railways, ports and factories, and greater emphasis on promoting the freight business rather than passenger traffic, with pleasure travel being in Nishihara’s eyes a form of unproductive consumption. Only when these two conditions have been met, should the broad-gauge conversion issue be raised again.⁵⁶² In the event, however, the 1912 compromise between Hara and Katsura to postpone the broad gauge conversion programme had “effectively killed it.”⁵⁶³

Nishihara criticised the lack of connectivity between railways and ports and lambasted the fact that coolies were still being used in the ports, primarily for goods to be unloaded from boats and moved to the customs inspection halls, before being loaded again onto railway vehicles. This process, Nishihara notes, takes days, and the goods could have been loaded directly onto railway vehicles before customs clearance, only if there were railway tracks and cranes on the quayside to facilitate the direct transfer of goods from boats to trains. Nishihara also criticised the arrangement of and management practices at railway goods yards, which were often situated far from factories. Nishihara suggested that an “Imperial Transport Corporation” [帝國運輸株式會社] with a capital of 50 million yen be set up to take over the business of delivering goods from factories to railway yards, to build railway spur lines to factories where necessary, and to oversee the loading and

Sogō Shinji, [十河信二] who had entered the Ministry of Railways in 1912 and experienced at first hand the “broad gauge debates” of the Katsura-Gotō era. See Sogō, Shinji. [十河信二] Yufatsu - Sogō Shinji Jiden (There is a solution – The Autobiography of Sogō Shinji.) [有法子 – 十河信二自伝] Tōkyō: Wedge, [ウェッジ文庫] 2010.

⁵⁶⁰ Najita, *Hara Kei*, 73.

⁵⁶¹ Hara, *Diaries*, vol.3, 355. In Najita, *Hara Kei*, 73.

⁵⁶² Nishihara, *Keizai Rikkoku Saku*, 127-129.

⁵⁶³ Najita, *Hara Kei*, 77.

unloading of goods from railway vehicles owned by the Ministry of Railways.⁵⁶⁴ Nishihara further suggested that the twenty-one workshops under the Ministry of Railways, which had been taken over from the private railway companies during nationalisation in 1906, should be made redundant and replaced by four centralised workshops in Hokkaido, Kanto, Kansai and Kyūshū.⁵⁶⁵ Finally, Nishihara commented on the state of Japan's maritime transport, writing that billions of yen were being paid as subsidies to the shipbuilding and long-range maritime transport industries. Nishihara suggested that these subsidies apply only in the case where Japanese ships carry Japanese products for export in other countries, and that import cooperatives should be set up to oversee the importation of raw materials, and to coordinate with shipping companies.⁵⁶⁶ These advocacies are important, for it shows that Nishihara had considered cost reduction by rationalising the circulation of commodities through transport improvement and semi-nationalised cartelisation.

Much like his contemporary, Vladimir Lenin, Nishihara was an early advocate of widespread electrification and understood that it had broad social implications, in addition to increasing the competitiveness of Japanese industry. Electricity generation had begun in Japan in the late 1880s with Kobe's electric lighting company, but at the turn of the century it mostly relied on thermal plants. During the decade before WWI this switched towards hydro-electricity, which as Carl Mosk notes, "gave a decisive push to the Japanese power industry"; in 1903 thermal and hydro power plants were 21:9, but by 1912 this had become 147:199.⁵⁶⁷ Nishihara understood that fossil fuels such as coal and oil could not become the long-term solution for Japan's energy needs but noted that Japan had plenty of potential in developing hydroelectric power. He was intent on capitalising on this new source of electrical power and saw it in social revolutionary terms. Nishihara believes that the limited use of mechanical production along with the employment of labourers in exploited conditions for low payment are to blame for Japan's low productivity. To release the Japanese people from the clutches of low productivity on one hand and from "individualist, selfish socialism" on the other, and to ultimately advance society towards the values of coexistence and mutual-benefit, a revolution in production is

⁵⁶⁴ Nishihara, *Keizai Rikkoku Saku*, 131-142.

⁵⁶⁵ *Ibid.*, 143.

⁵⁶⁶ *Ibid.*, 145-150.

⁵⁶⁷ Mosk, *Japanese Industrial History*, 141.

necessary, and this had to be done with hydro-electricity. In 1917 only 800,000 horsepower of hydroelectricity was being used in Japan,⁵⁶⁸ but according to a survey by the Ministry of Communications [逓信省] there were at least 4.66 million horsepower of hydroelectricity waiting to be tapped.

Nishihara recommends that the state launch a programme of hydro-electrification. This would be operated by a nationalised concern, which would identify appropriate sites along rivers where dams would be built to supply electricity to specific zones to be earmarked for industrial development. The latter would solve the problem of insufficient economies of scale which Mosk notes inhibited widespread investment in power generation.⁵⁶⁹ Nishihara recommends that factories supplying essential daily commodities and export goods should be given preferential rates for their electricity supply, whilst the ad valorem land tax will fund the construction of sanitation facilities, roads and workers' housing in the industrial areas. Industrial Apprenticeship Schools should also be set up in the industrial zones, and that Taylorist methods (based on Frederick Winslow Taylor's influential 1911 work *The Principles of Scientific Management*) should be used to reform the way labour was managed. Nishihara did not specify rural electrification, but he would have realised, with the shortage of agricultural labour as a result of his other advocacies, that providing electrical power to the village production cooperatives would have been conducive to the introduction of labour-saving methods in agriculture, with the widespread use of mechanical power substituting for the transfer of labour power to other industrial sectors. Thus Nishihara in essence envisioned a second industrial revolution in Japan based on hydroelectricity and thought that this could become the cure for the country's labour problems.⁵⁷⁰

3.4.5 *Reform of Financial Institutions*

Nishihara's ideas for financial reform were regarded by Tsurumi Masayoshi as being integral to a scheme of financial mobilisation to serve the new heavy and chemical industries in addition to military needs;⁵⁷¹ as such they deserve to be examined in

⁵⁶⁸ Nishihara notes that of this 800,000 horsepower, half was being used for lighting and electric railway transport, whilst the other half has gone into the manufacturing sector. This compares unfavourably with Germany, where 80% of its 5 million horsepower of hydroelectricity has gone into manufacturing.

⁵⁶⁹ Ibid., 137.

⁵⁷⁰ Ibid., 93-100.

⁵⁷¹ Tsurumi, "Nihon Kinyū", 155-158

detail. As we have seen, civilian considerations have never been mutually exclusive of military ones in Nishihara's vision. Even though there is nothing to suggest that Nishihara read any of the works of the Saint-Simonians, his writing in 1918 agreed totally with their stance, whereby "a major overhaul in banking through a centralised system is "necessary to provide credit to industry" and to free up "lazy" money tied up in property." The Saint-Simonians, particularly the Pereires, understood that such a bank "was evidently not the Banque de France."⁵⁷² So did Nishihara, who criticises the Bank of Japan (BOJ) for having failed its function to foster industrial development.⁵⁷³ He lambasts the BOJ for having avoided active intervention in the financial world, preferring to come to the fore only when banks go bankrupt or are in need of rescue.⁵⁷⁴

Nishihara is decidedly non-monetarist and exhibits structuralist inclinations in his economic thinking, accusing the BOJ of only manipulating interest rates and using no other policy tools when trying to resolve complicated problems in the financial market. With regard to the ongoing problem of inflation, Nishihara blasts the bank for having "folded its arms and stood to watch" [袖手旁觀] the worsening of inflation and accuses it of having abused its power to issue currency. Not enough credit was provided by the BOJ when that was sorely needed, such as during the tax seasons, which effectively constitutes a "repression of private finance". [民間金融を壓迫] Yet the present problem is one where the BOJ has printed an enormous excess of banknotes, which despite bringing huge profits to the bank itself, is responsible for the chaotic market conditions and the deterioration of living standards; the BOJ has failed as a Central Bank, argues Nishihara, and it behaved in the way it did because it was only responsible to little more than 1,400 stock holders that included the Imperial Family, and the leading zaibatsu including Mitsui, Sumitomo and Mitsubishi. Together they constituted a capital of 60 million yen. The BOJ pays a dividend of more than 10% per annum, which Nishihara notes, is extremely rare on a worldwide scale. Nishihara concludes that the BOJ behaved irresponsibly and unanswerably to the general populace whose welfare it should serve.

The problems of the Japanese financial system during WWI was excess, but stagnant liquidity; it had been gained from the foreign trade boom and was stagnant

⁵⁷² Davies, *Pereire*, 70.

⁵⁷³ Nishihara, *Keizai Rikkoku Saku*, 151.

⁵⁷⁴ *Ibid.*, 155.

because of two reasons. The first was that banking regulations placed severe limits on assets that could be mortgaged – with stock and bonds accepted from only 18 companies – most of which were railway companies or colonial enterprises – as well as effectively banning the issue of derivatives like mortgage-backed bonds. The second reason was the prevalence of the British banking model which all “Ordinary (Savings) Banks” [普通銀行] were compelled by banking legislation to adopt. This offered only short-term credit, particularly with discounted trade bills as mortgage,⁵⁷⁵ instead of the long-term industrial credit in the German model, where company stock or bonds, or even unsold products could be used as mortgage, if not indeed being mortgage-free – only such arrangements could help the nascent industries which have emerged due to the wartime boom. On this matter Shōda Kazue and Nishihara, who believed in the German model, were constantly at odds with the BOJ’s Inoue Junnosuke, [井上準之助] who believed in the superiority of the British model and the prospect of Japan becoming an “Oriental London”,⁵⁷⁶ [東洋ロンドン] where the BOJ would finance discounted bills, most of which comprised of trade where Japan would not even be party.⁵⁷⁷ This would, for Inoue, promote the Yen as an international currency.

Intransigence on the part of Inoue and others caused immense problems with liquidity at all levels – for Ordinary Banks at the lowest level providing loans to businesses but could not seek in turn liquidity for the assets that they have gained as mortgage; for private entrepreneurs who struggled to provide enough mortgage, set at 30% for real estate and 25-30% for stock, and sometimes reaching 40%; nor did it provide any convenience to newly-emerging zaibatsu such as Suzuki Shōten, who were more venturous in their investments and did not enjoy monopolies in their sectors. In 1917-18 there was great pressure for Ordinary Savings Banks, some 664 of them, as well as the Bank of Agriculture and Industry which provided loans to peasants and craftsmen, to transfer upwards the risks of their mortgaged assets by issuing mortgage-backed securities, in view of a possible collapse of asset prices

⁵⁷⁵ Nishihara quotes a Tang Dynasty poem by Li Shen, [李紳] whereby the small savings of these peasants are described as the “crystallisation of bitter, hard work in each and every grain”. [粒粒辛苦の結晶] Instead of engaging in high-risk and high-interest investments therefore, which often wipes out the savings of these unfortunate peasants, the investments of the Savings Banks should in Nishihara’s view be limited by law to bonds issued or recognised by the state. Nishihara represented a rather conservative approach, which would not have helped providing liquidity to the banks by expanding the range of mortgage assets. See *Ibid.*, 173-174.

⁵⁷⁶ Tsurumi, “Nihon Kinyū”, 137.

⁵⁷⁷ Metzler, *Lever of Empire*, 97.

after the end of the hostilities; in short, all of them wanted the reticent banks at the top, particularly the BOJ but also the Bank of Industrial Encouragement [勸業銀行] to come to the rescue of banks at the bottom. In May 1917 the Ordinary Banks in six prefectures organised a “Central Banking Association” [中央銀行會] which requested permission to issue mortgage-backed securities, so that they could obtain more liquidity from both the Bank of Industrial Encouragement and the Bank of Agriculture and Industry. [農工銀行]⁵⁷⁸ In November 1918 the motion was adopted by the National Assembly of Ordinary Banks, [全國普通銀行大會] but the suggestion was rejected by the Hara government.

As Finance Minister, Shōda’s main consideration was military, with the Siberian intervention in mind. He predicted that 220-million-yen worth of banknotes would have to be issued for two years of war to cover costs that would run up to 620 million. Yet the BOJ would have to maintain its policy of gold convertibility if future prospects of becoming an Oriental London were not to be sacrificed.⁵⁷⁹ Shōda therefore announced in November 1917 an expansion of the range of bonds and stock permitted to serve as mortgage for loans; 47 companies were added to the list on top of the existing 18. These companies comprised the basic industries of Japanese capitalism.⁵⁸⁰ Such a change allowed for the mobilisation of 80 million yen worth of government bonds, 22 million yen worth of foreign bonds, and 151 million worth of corporate bonds, all to help raise funds for war. Increasing the liquidity of bonds and stock of basic industries would also help concentrate the excess capital on productive uses, and this conformed to Nishihara’s wishes. It would certainly have boosted the military-industrial complex. Shōda then announced that War Bonds would be issued. To raise their prices and to encourage the use of bonds as mortgage, Shōda decreed that bonds used as mortgage would be exempt from the 5% tax on dividends; the War Bonds would also bear a higher interest rate than discounted bills, so as to provide an incentive for discounted bills be mortgaged for the purchase of War Bonds, which could then be in turn mortgaged at the banks.⁵⁸¹

⁵⁷⁸ Tsurumi, “Nihon Kinyū”, 140, 142.

⁵⁷⁹ Ibid., 159-160.

⁵⁸⁰ For example the South Manchuria Railway, Kanegafuchi Textiles, [鐘淵紡績] Hokkaido Colliery and Steam Navigation, [北海道炭礦汽船] Oji Paper Mill, [王子製紙] Japan Steel, [日本製鋼所] Japan Nitrates Fertiliser, [日本窒素肥料] Tokyo Electric Lighting [東京電燈] and four sugar companies. (Ibid., 154-155)

⁵⁸¹ Ibid., 163.

Whilst Shōda manipulated the range of mortgageable assets, Nishihara's recommendations for the liquidity problem was mainly structuralist, in the form of amalgamations. He notes that there is a lack of coordination, even competition between the Bank of Industrial Encouragement and the Prefectural Banks of Agriculture and Industry, [府縣農工銀行] the latter supposedly an outlet of loans on behalf of the former. Nishihara suggests that they should be amalgamated into one, large Real Estate Bank, with branches in all prefectures, so that more liquidity could be provided to the masses of artisans and peasants. Unfortunately by the time Nishihara's book was published, the Temporary Assembly of the Bank of Agriculture and Industry had rejected the suggestion of an amalgamation in February 1918.⁵⁸² On the other hand, Nishihara's plans for the Bank of Japan were radical and certainly offensive to the powers that be, but they rested within practicable bounds. He argued that the BOJ's ownership structure should be totally revamped in a way not dissimilar to the Federal Reserve of the United States. Nishihara recommends that another 40 million yen be added to the 60-million-yen worth of capital of the BOJ, and that this should be comprised of 200 thousand non-transferrable "Type B" shares distributed to all other banks in Japan; each bank would then hold between 500 and 3000 BOJ shares, and participate in the management of the BOJ. Only by doing so could the BOJ recover its position and sense of responsibility as the leader of Japan's financial institutions. The BOJ and the other banks will be bonded in a "parent-child relationship". [親子關係] These recommendations, and the suggestion that the management of the Imperial Commodities Corporation be elected by the Cooperatives, shows an unusual "bottom-up", economic-democratic facet the State Socialism of Nishihara, and distinguishes him from the other more Statist advocates.

The Bank of Japan was suffering from competition from other zaibatsu banks which have begun to offer chequing accounts to its clients. Due to the private ownership of the BOJ it still offered, in 1918, services to individual customers. Nishihara argues that the BOJ could recover its power to dictate the financial market, which would suffer from the reduced use of banknotes, by also offering chequing accounts.⁵⁸³ Nishihara suggests that the BOJ establish proxy branches around the country where chequing accounts could be kept, so that private transactions with the government can be carried out using cheques. Such would "link and coordinate"

⁵⁸² Ibid., 144

⁵⁸³ Ibid., 150-152

[連結統制] private finance and government accounting and provide enormous conveniences to businesses.⁵⁸⁴ This shows Nishihara's concern with servicing the needs of the ordinary merchant in his daily financial transactions. Nishihara also recommends government promotion of private insurance schemes which would provide an additional source of liquidity for the market.⁵⁸⁵ Nishihara's other recommendations include the BOJ pay ordinary banks an interest rate for the deposit that they by legal requirement must save in a current account at the BOJ. Nishihara argues that because the BOJ profits from the over-issuance of currency, to combat inflation the BOJ should pay a Profits Tax whenever it issues more currency than the Finance Ministry's designated amount.⁵⁸⁶

Nishihara also argues that the power to decide interest rates should be taken back by the state from the Bank of Japan.⁵⁸⁷ He focuses on the problem of high interest rates and the difficulty for industries to secure financial support. He blames the banks for undervaluing the mortgage and not lending out enough, calling it the "bad practices of pawn shops" [質屋の陋習] Nishihara notices that regional differences in interest rates exist, and this makes life difficult for local producers as well as encouraging usury. He recommends that the government step in to fix interest rates for the BOJ with the approval of its member banks, and to punish both the banks which lend at higher interest rates and usury in society. Government bonds should only be sold at fixed prices. The BOJ should live up to its parental role for local banks and provide them with adequate capital particularly when the local regions are in need of liquidity. This will "create a controlled financial system" where the banks will be mutually-complementary.⁵⁸⁸

⁵⁸⁴ Ibid., 150; Nishihara, *Keizai Rikkoku Saku*, 152-154.

⁵⁸⁵ Nishihara notes the lack of legal measures compared to other countries to guarantee the rights of the insured, and observes that the 39 life insurance companies in Japan only had a total capital of 191.73 million, which exposes the inadequate development of the insurance industry. Nishihara writes that although it would have been a good thing in other countries for the life insurance companies to be taken over by the state and be linked-up with the national medical system, nationalisation of the insurance industry is not advisable given the conditions in Japan. The government should instead launch a promotional campaign to promote the benefits of insurance, and should this be successful, the total capital of the insurance companies "would increase to 1 or 2 billion yen and become a major financial source to help regulate the economy should a crisis one day befall on Japan." Meanwhile the investments of the life insurance companies should also be limited to government bonds, with overseas investments being allowed in exceptional circumstances. (Nishihara, *Keizai Rikkoku Saku*, 180.)

⁵⁸⁶ Under the system then in force, the Bank of Japan issued only an amount of currency that is subject to approval by the Ministry of Finance; issuing more than that number for a period of more than 15 days incurs a "Issuance Tax".

⁵⁸⁷ Ibid., 152-154.

⁵⁸⁸ Ibid., 160-163. "有無相通の理法活用を完整し、以て統制ある金融組織を實成すること。"

Nishihara proceeds to criticise the Industrial Bank [興業銀行] for not making full use of its special rights to issue bonds, and recommends that it absorb more capital via bond issuance, whilst providing liquidity to the Bank of Korea and the Bank of Taiwan, something which Nishihara believed would place the Industrial Bank at the head of a coordinated industrial production system spanning the Empire, encompassing especially China.⁵⁸⁹ Nishihara was particularly critical, however, of the Yokohama Specie Bank, (YSB) which has abused the confidence that Japanese merchants have in it. The YSB dominated the currency market in Japan but provides much lower exchange rates compared to the Deutsch-Asiatische Bank or the HSBC, to the detriment of Japanese merchants who are reliant on its business functions. Nishihara suggests that the YSB abandon its strategy of short-term profits, provide better exchange rates, and transform itself slowly into the hub of all business in East Asia. The YSB, he adds, must be closely linked to, and indeed regard the Industrial Bank, the Bank of Korea and the Bank of Taiwan as its “daughter banks” [娘銀行] in the same way as the Deutsch-Asiatische Bank had implemented a “doctrine of centralised activity” [集中活動主義] to support German overseas enterprises.⁵⁹⁰

⁵⁸⁹ Ibid., 163-164.

⁵⁹⁰ Ibid., 165-170.

3.5 Political Reorganisation

Nishihara's proposals for political reorganisation were founded upon the requirements of the new economic system that he strove to materialise, yet it seemed to be a matter that he hadn't totally thought through. At the heart of these proposals were an expanded but still elitist and bourgeois-based electoral franchise, rather than the universal suffrage that fellow State Socialists like Yamaji Aizan had been campaigning for over a decade prior to Nishihara's manifesto. Such electoral reforms were, as we shall see, in fact paradoxical to his economic reforms. In addition, Nishihara wanted to create powerful government departments to coordinate the new economic order, and a system of taxation that conformed to broad State Socialist aims of punishing the idle and their luxuries, whilst relieving the masses from their erstwhile tax burdens.

3.5.1 Electoral Reform

Nishihara's proposals for electoral reform demonstrate the elitist and authoritarian nature of his State Socialism. These proposals were not included in his manifesto, but a pamphlet dating from 1918 has survived within his papers to show that he had a set of conservative reforms in mind. Nishihara suggests limits to election expenses⁵⁹¹ and further analyses various proposals for the reform of electoral district sizes, and concluded that small electoral districts, with one MP rather than multiple MPs per district, was the ideal system; Nishihara also rejected proportional representation for being administratively troublesome.⁵⁹² Nishihara did not support universal suffrage, believing that important matters of state should be left to the educated and the propertied, quoting an old saying from Mencius that "those who are propertied have a more consistent mind".⁵⁹³ [恆産者恆心アルコト] Nishihara understood that Japan has an overly low population ratio with voting rights, at only 3% compared to 27.6% in France and 17.7% in Britain, even though neither country

⁵⁹¹ Nishihara also notes the problem of electoral expenses and recommended strict supervision; an allowance of 1000 yen should be allowed for every 1000 candidates, and for every addition of a hundred candidates on top of that, there should be an extra 20 yen's allowance for each candidate. Every expense of more than 5 yen should be documented with proper receipts, and all gifts received should be reported to the local police station, along with an estimate of their value.

⁵⁹² In this, Nishihara effectively agreed with Hara Takashi's proposals raised just a few years prior – "In the large district system in existence, Seiyukai Diet men found themselves competing against each other and dividing votes among themselves, thereby enhancing the chances of a weaker third candidate. Furthermore, expenses were high in the large district systems. Hara, therefore, submitted a bill (March 1912) to establish a small electoral district system, but it was turned down by the House of Peers as a selfish scheme." (Najita, *Hara Kei*, 60.)

⁵⁹³ Nishihara, "Senkyoken, Senkyokusei oyobi Senkyoundō", [選挙権、選挙区制級選挙運動] in *Nishihara Kamezō Kankei Monjo*, v.32, 384.

had universal suffrage at the time. Nishihara notes that the electoral franchise had already been expanded once in 1900, where the qualifications for voter registration were lowered from the payment of 15 yen of tax a year to 10 yen; Nishihara further suggests lowering this to 5 yen a year, so as to double the electorate from 1.42 million to 2.71 million, or 5% of the population.⁵⁹⁴ Nishihara believes, with a degree of naivety, that this reform would be a way of countering the “dangerous thought of individualism and socialism”.⁵⁹⁵ What he did not realise was that the Hara Takashi government would propose, a year after this pamphlet, an even more lax tax requirement, at 3 yen per annum, and that even this would be rejected by the opposition.⁵⁹⁶ Nishihara’s political elitism is ironic, given his emphasis on popular-mobilisation; it demonstrates the extent of his wary reaction to the rise of mass society in early 20th century Japan, and on the other hand shows his keenness to co-opt the middle classes. Yet, given how Nishihara wanted to abolish the bourgeoisie altogether with his economic reforms, conferring electoral rights upon this moribund social class seems self-defeating.

3.5.2 *Government Structural Reforms*

Nishihara recommended changes to the government at both central and local levels, and here he may be said to have left a legacy, although he has hardly ever been credited for it. The powerful economic ‘general staff’ of post-war Japan known as MITI, or Ministry of International Trade and Industry [通商産業省] has its origins in the split in 1925 of the Ministry of Agriculture & Commerce. [農商務省] The division created the Ministry of Commerce and Industry. (MCI) This was already advocated by Nishihara in his 1918 manifesto, according to which the Ministry would have had MITI-like powers, having taken over the Commerce Section of the Ministry of Foreign Affairs. The new Ministry would also have been responsible for commercial and industrial coordination as well as foreign trade, mining and electricity.⁵⁹⁷ There are signs, however, that the idea was not original to Nishihara. Having returned from the Paris Economic Conference of 1916, Sakatani Yoshio submitted a memorandum on 6th January, 1916 to Nakashoji Ren, then Minister of Agriculture and Commerce. (MAC) The memorandum suggests learning from the experience of

⁵⁹⁴ Ibid., 382-384.

⁵⁹⁵ Ibid., 383.

⁵⁹⁶ Maeda, Renzan. [前田蓮山] Tokonami Takejirō Den (A Biography of Tokonami Takejirō.) [床次竹二郎傳] Tōkyō : Tokonami Takejirō Denki Kankōkai , [床次竹二郎傳記刊行會] 1939. 508

⁵⁹⁷ Nishihara, *Keizai Rikkoku Saku*, 248-250.

wartime commercial and industrial administration in Europe, and recommended splitting up the MAC to create, out of its Commerce and Industry Bureau, a large new Ministry which would be in charge of public works, munitions, labour and monopolies. The idea was mooted before Matsukata Masayoshi, and presumably received from him a favourable reaction.

Sakatani also spoke of the need for an Economic Consultative Organisation, giving rise to the Economic Investigation Committee.⁵⁹⁸ Gotō Shinpei was equally interested in a new Ministry of Commerce and Industry, or more precisely, to head it once the Ministry has been established, but signs of such thinking were documented in Hara Takashi's diaries from 1920-21.⁵⁹⁹ The point at which Nishihara raised the idea, in late 1918, lies between Sakatani's original proposals and Gotō's attempt to realise them; and because of this, the MCI's origins must be considered within the context of Nishihara's advocacies for Rathenau-inspired, wide-ranging governmental powers in industrial coordination, purchasing and even retail, with the help of a network of production cooperatives that would have reorganised the countryside. These elements distinguish Nishihara's proposals as something even more radical and far-sighted than those which eventually created the MITI. Nishihara also recommended reforms to the MAC and the Interior Ministry to accommodate for the consolidation of power in the hands of local production cooperatives, in addition to the way communications, forestry and tax offices were run.⁶⁰⁰ Finally, Nishihara appeals for a spiritual renewal in the

⁵⁹⁸ Fujii, "Allied Economic Conference", 64.

⁵⁹⁹ Hara, Takashi. [原敬] *Hara Takashi Nikki (5) Shūshō Jidai* (Hara Takashi Diaries vol. 5 - As Prime Minister) [原敬日記 (五) 首相時代] Hara Keiichiro, [原奎一郎] ed. Tōkyō : Fukumura Shuppan, [福村出版] 2000. 201, 297, 305, 333.

⁶⁰⁰ Nishihara suggests that the Public Works Bureau [土木局] of the Interior Ministry be transferred to the Ministry of Transport, [交通省] and its Local Bureaus [地方局] be converted into Self-Government Bureaus [自治局] and Relief Bureaus. [救済局] Such changes would have entailed the transfer of responsibilities of supervising the production cooperatives from the Ministry of Agriculture and Commerce to the Interior Ministry, which probably meant their consolidation as the basic unit of local self-government. Nishihara also suggests the establishment of a Ministry of Colonial Expansion [拓殖務省] to oversee matters that include the emigration overseas of Japan's surplus agricultural population – this Ministry was eventually established in the mid-1920s by the cabinet of Tanaka Gi'ichi, which Nishihara initially supported. Nishihara recommends the establishment of an independent Bureau of Communications [通信局] to oversee the postal service, telecommunications and the postal savings bank. The Interior Minister would assume the directorship of the Bureau of Communications to facilitate the administration of interconnected matters, notably telecommunications and the Postal Bank. Nishihara also recommends that the regional Tax Offices under the Ministry of Finance be abolished, and the responsibility of collecting taxes be devolved to the heads of localities, who would be able to set tax rates and conduct tax collection in methods better suited to local conditions. Against the hypothetical counter-argument that such a system could be easily abused by the heads of the localities, Nishihara argues that the

bureaucratic sphere and demands that civil servants be chosen on their understanding of economics, rather than legal knowledge.⁶⁰¹

3.5.3 *Taxes and Monopolies*

Nishihara's proposed changes to Japan's tax regime were drastic and thoroughly orthodox State Socialist. At its centre is progressive taxation. Under the then-existing income tax system, personal income from dividends from shares and commissions/bonuses are not taxed. Nishihara thinks that, if profits from land can be rightfully taxed, then dividends from shares and bonuses, which in Nishihara's view are no different in nature to a salary, should logically be taxed. Nishihara notes that companies (legal persons) are able to earn their profits thanks to the help and support from the policies of the state. They should thus return a part of their profits to the state, something which Nishihara felt was more important than making a personal profit. Personal income from dividends from shares and commissions and bonuses should also be taxed.⁶⁰² The consumption tax on textiles, diesel oil, transport and soy sauce – daily commodities for civilians and businesses – should be abolished; a 10% tax should be imposed on mixed silk textiles and 20% on all silk textiles. Nishihara hopes that such a revised tax regime will promote productivity and moral values, guarantee proper living standards for the citizens, whilst also consolidating national defence; in short, in a sentiment not dissimilar to that of the early Saint-Simonians, Nishihara wanted a society where there is “no room for life that is unproductive”.⁶⁰³

Tajiri Inajirō, of the ASSP, had advised against progressive taxation and a high tax rate, claiming that high income earners were rare in Japan anyway. This had

blame should fall on the individual in question, rather than the system. These recommendations were not ultimately put in place; as of today (2018) Japan still retains a nationwide system of Tax Offices. Nishihara also suggests scrapping the Forest Regional Offices [大林區署] and transferring state-owned forests to the control of the newly-established Ministry of Agriculture; this is whilst the state-run logging industry should be abolished, and the industry left to private control. (Nishihara, *Keizai Rikkoku Saku*, 248-250.)

⁶⁰¹ Nishihara thinks that diplomats should not be chosen only on the basis of their fluency in foreign languages, for their character and knowledge should also be factored in. Bureaucrats should receive practical experience in their areas of specification and receive advice from experienced personages or academics from the relevant fields. Nishihara also recommends scrapping the present system of honours which were meted out to bureaucrats for their seniority, for such honours should be reserved to those who have made genuinely outstanding contributions. (Ibid., 253-255.)

⁶⁰² Ibid., 260.

⁶⁰³ Ibid., 266. “不生産的生活の余地なかるべく”

apparently changed with the wartime economic boom.⁶⁰⁴ Nishihara was less radical than Walther Rathenau who had suggested that, to stop wasteful expenditure, “half of all incomes (excluding the first GBP150 per annum) should be taken by the State in the form of income tax”⁶⁰⁵ Nevertheless, Nishihara argues that rich families should be subject to heavier taxes. Nishihara thinks that a state cannot be founded upon the basis of citizens who live beyond their means, [所得に不相応なる生活] and thought it necessary to guide [導化] the populace’s consumption habits through taxation policies, in the direction of avoiding unnecessary expense. In the long run, however, Nishihara tried to discourage luxury consumption altogether by caging it in. Heads of families, the expenses of which exceeds 600 yen per annum, or an individual who makes more than 600 yen per annum, would have to keep detailed records of their expenses in a log book that would be submitted to the authorities; failure to do so would result in a fine, whilst repeated offences or the discovery of any tampering with the account books would result in “physical penalties”. The tax rate would be set against an evaluation of the living expenses of the family.⁶⁰⁶ Such would of course have seriously infringed upon privacy, which seemed to be the least of Nishihara’s concerns.

Nishihara believes that the present tax regime on commodity and stock exchanges is too lax, and that encourages speculation, especially on futures which should be subject to restrictions. Such exchanges, he feels, are no longer functioning as a place where commodities and stock are being properly bought and sold, but is only serving speculative purposes which should be inhibited by a revised tax regime; the stock exchange should be turned into an “organization for the public good”. [公益の機關]⁶⁰⁷ Having reformed the income tax regime, Nishihara recommends that

⁶⁰⁴ Tajiri Inajirō. [田尻稲次郎] *Zaisei to Kinyū* (Monetary Policy and Finance). [財政と金融] Tōkyō : Dobunkan [同文館] 1916. 290.

⁶⁰⁵ Henderson, “Walther Rathenau”, 105. Rathenau also recommended that “imported luxuries should pay a high import duty while those made at home should pay an equivalent purchase tax. Rathenau desired to reduce by taxation the use of motor cars, mansions, private grounds, jewellery, servants and so forth (the luxuries of the rich) as well as alcoholic drinks and tobacco (the luxuries of the poor)”.

⁶⁰⁶ Between the bottom-line income level of 600 yen to 1200 yen per annum, the income of all members of the family will be calculated as one single income, with a 200 yen allowance for each individual. The progressive taxation regime is as follows – a basic tax rate of 1% from 600 yen per annum onwards, with an increasing tax rate until a maximum of 25% for income earners of 300,000 yen per annum. For income earners of 10,000 yen per annum or below, a “doctrine of moderation” will be applied on the tax rate. Nishihara, *Keizai Rikkoku Saku*, 261.

⁶⁰⁷ Tax exemption for dealers should be at above 2000 yen per annum, and a 20% tax be imposed on all profits from the redemption or selling of goods and stock. Proper transactions should not be taxed, and the exchange would, according to Nishihara, as a result of these changes be increased. He further suggested that a 6% tax rate be imposed on stock companies and joint-

the state then reduce the tax rate on corporate revenue [營業稅] or even its total abandonment and merger into local taxes, whilst new land surveys should be done for places where significant property development has taken place.⁶⁰⁸ Public expenditure for cities should be paid for by profits and savings from labour cost derived from the inner-city state department stores to be set up in future. Public expenditure for city-town-villages should also be the responsibility of the production cooperatives in the localities.⁶⁰⁹ This is whilst the present corporate tax regime compounds the burden of income tax and forces people to work only to pay taxes; it should be abolished.⁶¹⁰ With regard to government monopolies, although the attitude at the ASSP was generally against their expansion and in favour of privatisation – an idea represented by Horie Ki'ichi.⁶¹¹ It is perhaps precisely because of this preference for private rather than state initiative that Horie failed to propose any substantial programmes for Sino-Japanese economic integration. Nishihara suggested otherwise. In addition to the tobacco monopoly, Nishihara thinks that wine and sugar should also be subject to state monopolization. This is whilst the revenue from the salt monopoly exists to prevent the industry from falling into ruin, and that salt should be sold at production cost. The existing wholesale systems for the tobacco and salt monopolies should be abolished, and its responsibilities be transferred to the townships, districts and villages, where they should be managed by the production cooperatives. Such advocacies are in line with traditional State Socialist ideas, as we have seen in Bismarck, Wagner and even Chow Hsueh-hsi.

stock companies, with suitable modifications where necessary. A 3% tax should be levied on dividends from public bonds and 4% on dividends from corporate bonds. (Ibid., 264.)

⁶⁰⁸ Nishihara argues for the abolition of the present value-added tax for localities. 10% of the revenue derived from land and income taxes, to be collected by the local authorities rather than Tax Bureaus subservient to Tōkyō, should be reserved for the Prefectural [府縣] authorities, whilst another 10% should go to the city-town-villages. [市町村] He also argues for the revenue from the value-added land tax be split between the localities. (Ibid., 262-263.) This reflects influence from Henry George, who argued that any rise in the price of land resulting from public works and improvements should belong to the government.

⁶⁰⁹ Ibid., 264-265.

⁶¹⁰ Ibid., 265.

⁶¹¹ Taiyoji, Junichi. [太陽寺順一] "Introduction". In Kangyō to Hōgō Kaisha Mondai (The Problem of Government Industries and Protected Corporations). [官業及保護會社問題] Shakai Seisaku Gakkai Shiryo Shūsei (Association for the Study of Social Policy Historical Materials Compilation), Vol. 10 [社会政策学会史料集成第10巻] Tōkyō : Ochanomizu Shobo, [御茶の水書房] 1977. 1-6.

3.6 Developmentalist Vision for China and Central Asia

3.6.1 *Nishihara's Proposals*

Nishihara repeats his prediction that Continental East Asia became the centre point of international competition and economic warfare. The war, he said, has made the need for higher integration between Japan and its dependencies painfully felt. China, with its "5 million square miles of territory, its 400 million-strong population, temperate climate, fertile land and limitless natural resources [...] untouched by modern science", has been "crippled by generations of accumulated bad practices and prevented from pursuing an independent course of development in politics and economics."⁶¹² The fact that China has been the focal point of international contention means, in Nishihara's view, that no single country is free to act within it, and this is shown by the repeated declarations by the powers regarding an open door policy in China with equal opportunities for all parties, whilst also pledging for the safeguarding of China's territorial integrity. China, for its survival, depends on a passive equilibrium of external forces. "One wrong step, and China might land itself in a situation where it would be carved up by the powers."⁶¹³

The mass of interlinked interests in China between the powers has become a Gordian Knot, waiting to be cut.⁶¹⁴ Nishihara thinks that Japan has an inalienable responsibility in safeguarding both China's territorial integrity and the peace in East Asia, and that the successful upkeep of such responsibilities will decide the fate of the Empire; but Japan, observed Nishihara, has exhausted and wrecked itself in the course of doing so, and the situation has become untenable. China's donning of various rights and concessions on the western powers constitute a peaceful form of economic encroachment, and Nishihara notes that the loans that have been provided to China mostly carried ulterior motives. Nishihara observes that appeals for Sino-Japanese cooperation have been made not only in Japan but also in China. He warns, however, that little could be done by Japan unless the powerful in China realises that cooperation with Japan is of much greater a degree of urgency and necessity than with Russia or the US. Nishihara also appeals to Japanese politicians

⁶¹² Nishihara, *Keizai Rikkoku Saku*, 17-18.

⁶¹³ *Ibid.*, 18-19.

⁶¹⁴ *Ibid.*, 19.

to make a determined choice for cooperation with China over coordination with the west, noting that Japan was now at the crossroads of its national policy.⁶¹⁵

During his visit to Peking, Shibusawa Ei'ichi had emphasised on the cultural links between China and Japan acting as the firm basis for economic cooperation and the "expansion of mutual interest".⁶¹⁶ For Nishihara, Japan had in the past relied on Chinese cultural inspiration; it is now time for China to depend on Japan for military protection against the fate of division and ruin. The two countries should stand together, benefit each other, and could compensate for one's weakness with the other's strengths, in the aim of eternal security and development.⁶¹⁷ "It is our belief that the important mission today is to aid the development of China's national economy; this mission must be integrated and made consistent with the objective of strengthening Japan's industrial basis. Here lies the priority and the urgency. In other words, we must not lack the determination decide upon a domestic policy that is made in accordance with Japan's China Policy."⁶¹⁸

Nishihara argues that the reckless pursuit of political, financial and military centralisation in China has been disastrous, presumably because the material basis did not exist for it. The development of industry and transport to consolidate China's economic power should therefore be prerequisite to unification policies. Nishihara states that "Japan's national policy is consistent with the shortcut to realising the industrial development and national unification that is eagerly anticipated by the 400 million Chinese population",⁶¹⁹ and warns Japanese as well as Chinese politicians to refrain from petty manipulations for short-term gains. Nishihara proceeds to list the elements of his China Policy, most of which constituted the contents of an April 1918 Sino-Japanese Memorandum. Japanese involvement should concentrate on fostering specific Chinese policies in seven sectors: 1. Tax reform, 2. Monetary reform, 3. Centralisation and financing of railway management, 4. Cotton cultivation, 5. Wool production, 6. Minerals and 7. Steel self-sufficiency.

⁶¹⁵ Ibid., 19-20.

⁶¹⁶ Tian, "The Sino-Japanese Economic Rapprochement", in 1914, 30.

⁶¹⁷ Nishihara, *Keizai Rikkoku Saku*, 28. "將來日支兩國は各自其長を以て短を補ひ、共に立ち共に利し、永遠の安全と發展とをきすべきなり。"

⁶¹⁸ Ibid., 28. "而して吾人の確信する今日の要務は、支那の國民經濟の助長發達と我日本の工業發展の基礎確立とを契合一致せしむる以て最先の急務とするに在り。即ち日本の對支政策は此眼目に歸一せしめ、我國内政策も之に順應せしむるの決心なかるべからず。"

⁶¹⁹ Ibid., 29. "是れ我日本の根本的國策と、支那四億民眾の期待する産業開發國政統一を實顯するの最捷徑として、兩者契合一致する所以なりとす。"

Firstly, just like Friedrich List's advocacy for a German Customs Union a century prior, Nishihara notes the difficulties in trade and transportation caused by the inter-provincial tolls, or *likin*, [釐金] which would need to be abolished. Not only would foreign merchants, at present locked into the treaty ports, benefit from the abolition of the *likin*, it would also minimise the burden on consumers, and remove the barriers to the emergence of new industries in China.⁶²⁰ Reforming the tax regime was therefore the greatest priority in the development of Chinese industry, and Japan should be doing the maximum to support such reforms, by giving help and encouragement to the Chinese Central Government. Secondly, China's haphazard monetary system which relied on a mixture of silver taels and silver coinage, plus banknotes of an unstable value, forced many inside China to resort to barter trade. Where a proper currency exists, as it was the case along the railways in Manchuria, agricultural production has taken huge strides compared to its lacklustre state along the railways in China proper. This must not go on, says Nishihara, if China was to seek industrial development; it must reform its currency to base it on the gold standard, and Japan must support it.

Thirdly, Nishihara observes that railway concessions in China have always been prized by the foreign powers. China's railways were only nationalised *de jure*; its *de facto* control lies in the hands of the various powers, and this has prevented China from having a unified transport system. Japan should make the decisive action, with China's interests in mind, to cast away its existing attitude towards railway concessions in China so as to set an example for the other powers. Japan should do everything possible to aid the centralisation and unification of railway management under the Chinese Central Government, so that a unified transport system and improved working practices may come into existence.⁶²¹ By increasing traffic revenue, a strategy may be set up to pay off the debts, and where capital is needed in future, a Sino-Japanese Capital Consortium should be set up. This constitutes an elaboration of the stipulations of Chapter 3 of the April 1918 Memorandum.⁶²²

⁶²⁰ Ibid., 30. “其貨物の需要者に不利なると共に、生産者の蒙る不利亦大なるは勿論、生産の増進を阻止し、新産業の興起を妨礙するの障壁なりとす。”

⁶²¹ Ibid., 32-33. “我帝國は支那の爲めに計り、又我立脚地より深く考慮し、支那の鐵道を利權視する態度を一擲すると共に、列國も亦我と同じく之を利權視せざらむべく努力し、支那をして既設鐵道の管理を中央政府に集中統一するの方針を確立せしめ、我は極力之を援助し、運輸系統の統一、工作工營の改善に全力を傾注し。”

⁶²² Suzuki, *Nishihara Shakkō*, 184-185. This did not come without strings attached, however. Nishihara first developed these ideas in August 1917 when in Peking, during which time the monarchist warlord Chang Hsun [張勳] had sought refuge in the Dutch embassy. Nishihara

Nishihara had far-reaching plans for Chinese railways; in his papers can be found a memo that was submitted by the Shantung Railway Administration, at the time under Japanese control, for the extension of the previously German-run Shantung Railway. This line ran from the port of Tsingtao to Tsinan [濟南] where it formed a junction with the Peking-Nanking line (i.e. the Tientsin-Pukow Railway [津浦鐵路]) The memo noted how Russia, via a Belgian syndicate, had exacted from China the concession for a railway from Tatung [大同] in Shansi [山西] to Chengtu [成都] in Szechwan. This railway could in future connect the Trans-Siberian Railway in the north with the French-operated Indochinese Railway to Yunnan in the south – thus forming a new north-south artery in western China allowing Russia to communicate with French Indochina.

The Russians, via the same Belgian syndicate, has also controlled the east-west Lunghai Railway [隴海鐵路] (referred to in the memo as the Hailan Railway [海蘭鐵道]) which, once complete, would connect north-western China with a port on the East China Sea. The memo recommended that Japan participate in this competition by making use of previous agreements between China and Germany to extend the Shantung Railway from Tsinan to Taokou [道口] in Honan [河南] Province where it would join both the Peking-Hankow Railway [京漢鐵路] – the main north-south artery of rail transport – and the east-west Lunghai Railway. The potential of this project lies in its ability to open up the coal-rich Shansi province, and once extended to Lanchow [蘭州] the line forks into two directions, one connecting via Hsinking [新疆] to Tomsk on the Trans-Siberian Railway, the other driving straight into Central Asia by way of Tsinghai, hence forming a “Grand Transversal Railway” that would ultimately reach even the shores of the Mediterranean Sea.⁶²³ Such a railway, if constructed, would certainly have dwarfed the South Manchuria Railway in terms its scale and economic influence.

fantasised that China could declare war against the Netherlands, occupy the Dutch East Indies with Japanese assistance, and transfer the Dutch East Indies to Japanese control in exchange for Japanese relinquishment of the Kwantung Concession and the sale to China of the South Manchuria Railway at a reasonable price. Part of the consideration was to prevent a German takeover of the Dutch East Indies. Nishihara called this memorandum “Tōyō Eikyū Heiwa Saku” (“The Strategy for Eternal Peace in the Orient”) [東洋永久平和策]; three versions of the draft exist, dated 1917-08-11, 1917-08-13 and November 1917. See *Nishihara Kamezō Kankei Monjo*, vol. 33, 119-149.

⁶²³ “Shantung Tetsudo Enjō Ikensho”, [山東鐵道延長意見書] in *Nishihara Kamezō Kankei Monjo*, vol. 31, 42.

The memo argues that the Russian-controlled Trans-Siberian passes through harsh, cold terrain, whilst the southern route then under construction from Persia via India, to Burma and Yunnan in China would have largely been a British affair that passes through hot and humid regions, the new Central Asian Transversal Railway [中央亞細亞橫斷鐵道] would have passed through areas of temperate climate. Such a railway would revive the ancient trade routes of the camel trains, which have declined due to maritime transport.⁶²⁴ The memo discusses the options for Japanese emigration overseas and considers Central Asia – where the Bolshevik revolution had created a power vacuum – to be a superior location for Japanese emigration compared to America, Africa and Australia under Caucasian control, or even the densely-populated Manchuria, or Mongolia with its harsh climate. The memo recommends that Japan thoroughly communicate with China to set up an arrangement by which joint Sino-Japanese control would be established over the Shantung Railway and its future extensions. Chinese investment in the extension from Tsinan to Taokou would be funded by a Japanese loan. This shortline of 190km is described by the memo as the first step of a grand scheme for the future prosperity of the Japanese Empire.⁶²⁵ Nishihara Kamezō is known to have discussed this scheme with the Chinese Premier Tuan Chi-jui, telling him that “the Shantung Railway will become a direct mainline railway to Europe, once it had been extended via Kansu [甘肅] to Ili [伊犁] in Hsinking and hence through Central Asia”. This would then transform Tsingtao into a busy port that would rival Shanghai in terms of importance. Tuan Chi-jui seemed to approve the proposals and agreed particularly on the necessity to develop Tsingtao as a naval base.⁶²⁶

Nishihara notes that China, with its plentiful resources and 400 million cheap labour, is the perfect, “heaven sent” partner for Japan which has an excess of human capability and insufficient material resources.⁶²⁷ This is similar to the rhetoric deployed by Shibusawa Eiichi during his visit to Peking, where he spoke of the need for Sino-Japanese cooperation where China lacked not one, but two or more elements out of the three needed for industrial development – expertise, technology and capital.⁶²⁸ Noting Japan’s rapid population growth, Nishihara argues that a “narrow doctrine of self-sufficiency” within the Japanese mainland and its

⁶²⁴ Ibid., 43.

⁶²⁵ Ibid., 42-46.

⁶²⁶ Nishihara, *Jiden*, 197.

⁶²⁷ Nishihara, *Keizai Rikkoku Saku*, 25-27.

⁶²⁸ Tian, “The Sino-Japanese Economic Rapprochement”, in 1914, 36.

dependencies will be insufficient to meet the needs of the Empire. Save for emigration to South America, Nishihara judges that Japan has no other option in its policy than the total execution of a doctrine of coexistence and economic integration with China. Japan's priority is to secure cheap, plentiful supplies of industrial raw materials – iron, coal, cotton and wool – and to make sure that these could be procured during possible enemy attack. Nishihara mentioned iron supplies from the Tayeh [大冶] mines in Central China being vital to Japan's steel industry. Although the state of coal supplies in Japan was slightly more optimistic, with the Hokkaido collieries still being relatively new and a billion-tonnes' worth of reserves awaiting excavation in Sakhalin, Japan was still producing much less coal than Britain, Germany, Russia and the US. For China, however, the exploitation of its plentiful coal reserves and cheap labour will be "most welcome for the future development of Japanese industry".⁶²⁹

In terms of cotton supplies, Nishihara observes that the US supplies 60% of the world's demand for cotton, and that Britain and Germany have both encouraged cotton cultivation in their colonies before the war, with Egypt and India being the top exporters. Experimentation with cotton cultivation in tropical Taiwan has produced disappointing results. The 100 thousand *cho* of cotton fields in Korea produces no more than 250 thousand *tan* [擔] (15,125 metric tonnes)⁶³⁰ of cotton, which constitutes less than 5% of Japan's pre-war demand of 6 million *tan*. (363,000 metric tonnes) This is whilst China produces 6 million *tan* of cotton a year – fitting exactly Japan's demand. Although the cotton produced in northern China is unsuitable for the textiles industry with its short fibres, the cotton crops along the Yangtze River from Hankow to Shanghai are brightly white and of a fine quality. Nishihara notes that under Yuan Shih-k'ai, American cotton crops which require little rainfall have been experimented in Honan Province in central China with brilliant results. With farmland in China totalling 100 million *cho*, Nishihara suggests that if only 5% is turned over to cotton cultivation, China could easily produce 15 million *tan* (907,500 metric tonnes) of cotton per annum, at which point China would emerge as a serious competitor to India, and a policy of self-sufficiency in cotton between Japan and China would have been possible.

⁶²⁹ Nishihara, *Keizai Rikkoku Saku*, 23-24.

⁶³⁰ One *tan* is roughly equal to 60.5kg.

Nishihara recommends Japanese assistance to help China pay for the 1 million yen per annum costs that would allow laboratories be set up to promote the widespread cultivation of good cotton crops and the use of fertilisers. The goal of producing 15 million *tan* could thus be achieved within ten years.⁶³¹ At 1912 prices at 76 yuan, or 54.72 taels⁶³² per *tan*, 15 million *tan* would have been worth 820.8 million taels. Trade statistics from the time suggests that, had Nishihara's recommendations been followed through, there could have been a huge advance for China's cotton industry, which in 1912 was exporting only 17,251,629 taels worth of cotton,⁶³³ or 2.1% of what Nishihara envisaged was possible for China.

The production of wool was impossible in Japan given the difficulty of breeding sheep under Japanese conditions. Although wool from Mongolia, Manchuria and Northern China was of an inferior quality, China could import a better breed of sheep from elsewhere. Nishihara observed that the best region for sheep breeding is between 25-35 degrees latitude, which corresponds to southern Brazil and northern Chile, or the Tsinghai [青海] region of north western China; Hsining, [西寧] the capital of Tsinghai, was a major trading hub for wool. Nishihara recommends the establishment of sheep breeding laboratories in Tsinghai, Kansu and Szechwan Provinces, in order to improve sheep breeds and methods of wool collection. The budget should be at 500 thousand yen per year or above.⁶³⁴ Nishihara further recommends a budget of one million yen per annum for geological surveys in China which will allow for the better exploitation of its natural resources and the integration of the two countries' economies; this advocacy, as we shall see, was built upon the work of Chinese geologists since 1913. Finally, the lack of coordination between the government and private business in the steel sector should be rectified, and China's plentiful supplies of iron ore and coal be made better use of, so that a self-sufficiency policy in steel may be established, in addition to

⁶³¹ Ibid., 33-34.

⁶³² Cheng, Xiangyu. [程翔宇] *Minguo Shiqi Zhengding Mianye Yanjiu*. (A Study of the Cotton Industry in Cheng-ting during the Republican Era.) [民國時期正定棉業研究] Masters thesis, Hebei Normal University. [河北師範大學] 2011, 34. One silver yuan, or Mexican dollar, was equal to 0.72 taels.

⁶³³ Yang, C., H. B. Hau et al. [楊端六侯厚培等] "Table IV. Value of Export Trade by Classes of Commodities", *65 Nianlai Zhongguo Guoji Maoyi Tongji* (Statistics of China's Foreign Trade During the Last Sixty-five Years.) [六十五年來中國國際貿易統計] Nanking: National Research Institute of Social Sciences, Academia Sinica, [國立中央研究院社會科學研究所] 1931. 7. In 1918 cotton exports reached a peak of 38,106,962 taels, which slid to just 9,582,634 taels by 1920, wiping out all increases since the year 1900.

⁶³⁴ Nishihara, *Keizai Rikkoku Saku*, 26-27, 34.

expanding sales elsewhere in East Asia and becoming more competitive in face of fine metal products of Europe and America.⁶³⁵

Writing of Walther Rathenau, Krajewski commented that the KRA was a project which sealed Germany from the outside world, and that this ran contrary to the globalist economic perspective Rathenau had displayed before the start of the war.⁶³⁶ Yet Nishihara's project for self-sufficiency was not to seal Japan off, but to open up a vast market and treasure chest – China – previously locked up due to material inadequacy and institutional incompetence. What sets Nishihara apart, when he speaks of China in terms of its large market with almost limitless resources and manpower to complement Japanese capital, is that he did not stop at a superficial view of a Japanese-dominated cooperative relationship. Nishihara argues that the Chinese economy is itself an important actor that should stand on its own feet rather than being passively subjugated or exploited; he expressed the sentiment that Chinese enterprise should be encouraged and financed, and that such posed no contradiction to Japanese development. His justification for tax and monetary reform was precisely that the existing, irrational arrangements were strangling Chinese productivity and discouraging the emergence of new Chinese industries; this argument echoes with those of Republican-era Chinese reformist economists.

Nishihara states, in no uncertain terms, that the fostering of Chinese economic growth is an urgent task that should be made totally complementary to and uniform with the consolidation of a firm basis for Japanese industry. He thinks that evidence has shown beyond doubt that pushing political, financial and military centralisation in China is futile without strengthened economic power through improved industry and transport infrastructure. Japanese intervention to promote such ends will in fact be the “shortcut” to the industrial development and national political unification anticipated by the Chinese people. Nishihara understands that these are difficult goals to accomplish given the present capabilities in China and Japan but instead argues for a long-term view of the costs and benefits. Reforms to China's tax regime and currency will bring about “direct and rapid growth in production and trade in China”.⁶³⁷ Should Japan follow through on these reforms and provide the necessary

⁶³⁵ Ibid., 34-35.

⁶³⁶ “The embeddedness of the German economy in global economic relations disappears, and the terrain suddenly dwindles to a regional trade zone. [...] The KRA proves to be an inverse world project so to speak: it paves the way for the transition from global to local production of individual factories.” (Krajewski, *World Projects*, 174.)

⁶³⁷ Nishihara, *Keizai Rikkoku Saku*, 56.

capital, not only will there be established a “causal relationship” [因果關係] between Japanese investment and Chinese production, but a boom will be brought to Japanese economic activity to prevent Japanese capital from being stuck in stasis. [固定凝滯] Ultimately an “economic alliance” [經濟同盟] would come into existence which would naturally consolidate political integration. [政治上的結合を自然的に鞏固] We should note that Nishihara wrote his manifesto exclusively in Japanese, and aimed it mostly at a Japanese audience; there is every reason to believe that he genuinely hoped to arouse his politician readers to the cause of peripheral rebellion. Nishihara pleaded the politicians to not be distracted by trivialities and to pursue the right course of policy that will make Japan and China inseparable, secure a future for the Japanese Empire, and return East Asia to the hands of the East Asians.⁶³⁸

3.6.2 *The Chinese Dimension to the Nishihara Project*

As we have seen, during the early years of the Republic, the Minister of Agriculture and Commerce, Chang Chien [張謇] argued that China should achieve self-sufficiency and increase its exports in terms of cotton and iron, calling it the “Cotton and Iron Doctrine”. [棉鐵主義]⁶³⁹ An undated report from the Ministry of Agriculture and Commerce entitled “Proposal for the Chinese Cotton Industry” [中國棉業計畫書] – which appears to have been written in 1916 or 1917 – contains a very similar vision to Nishihara’s for China’s cotton industry. The document proposed purchasing 24,000 catties (14,400kg) of cotton seeds from the United States during the first year and 48,000 catties (28,800kg) during the second year, and noted that whilst Manchuria and the Northwest are insufficiently hot and rainfall in southern China too much for cotton cultivation, Kiangsu [江蘇] would be an ideal place to begin the experimentation, which should then expand to six other provinces – Hupeh, [湖北] Chihli, [直隸] Shantung, Chekiang, [浙江] Honan [河南] and Shensi. [陝西]⁶⁴⁰

⁶³⁸ Ibid., 35-38. In another memorandum in Nishihara’s papers entitled “Jigen” (“Thoughts on the Times”) [時言] dated December 1917. Nishihara placed his advocacy for internal economic rationalisation, the Sino-Japanese economic alliance and steel self-sufficiency within the context of the troubles in Russia and the possible spread of German influence in an easterly direction, both of which would need to be contained by Japanese military intervention in Siberia. (*Nishihara Kamezō Kankei Monjo* vol. 33, 170-179.)

⁶³⁹ “If a country like Japan, that is one-twentieth of our size and has one-eighth of our population, can have 1,731,500 looms,” laments Chang, why was it that “only 810,000 looms exist throughout China”? *Zhangjian Quanji* v.1, 274.

⁶⁴⁰ *Zhongguo Mianye Jihuashu*. [中國棉業計畫書] 61-62. CASS-MHI, Jia-350.160.

Chang Chien had also expressed regret that the vast iron reserves of China were underexploited. Nishihara's innovation was therefore in identifying areas in which Chinese policy makers had already considered and to expand on them. These policy aims would have been known to Shibusawa, who visited China a few months after Chang Chien declared his policy aims; Shibusawa had been received by members of the Ministry of Agriculture and Commerce. It is very likely that Nishihara had taken inspiration from such rhetoric, during his many visits to Shibusawa to discuss China Policy, and certainly in his visits to Chang Tsung-hsiang, [章宗祥] the Chinese ambassador, which took place once every few days at its height according to Nishihara's diary. The first of these visits took place on 1st July 1916. It is known that they discussed conditions in China, Sino-Japanese Cooperation, and details of the Loans policies; Nishihara also offered Chang his views on reforming China.⁶⁴¹ [維新事業] In modern economic terms, as the Neo-Structuralist School would put it, Chang Chien and Nishihara's proposals made sense because they had accurately identified China's "endowment structure"⁶⁴² [稟賦結構] – the industrial sectors, e.g. cotton, iron and wool, in which the country would have had an international comparative advantage, given adequate investment in them and official encouragement.

During his tenure as Minister, Chang Chien set up a Geological Survey Institute [地質調查所] under the Ministry's Mining Division. [礦政司] This was staffed by geologists Ting Ven-kiang, [丁文江] graduate of Glasgow University and Wong Wen-hao, [翁文灝] graduate of Leuven University in Belgium. Throughout 1913-1917 many geological surveys were conducted into coal and iron reserves across the country, and in July 1917 when Chang Kuo-kan [張國淦] became Minister he was approached by American representatives Finley and Foster Bain on a semi-governmental mission to prevent Japanese domination of Chinese steel. Chang ordered the geologists to negotiate with the Americans using all of their available data. Amongst the items they discussed were China's wartime policies on mining and plans for a large steel mill to be built in Pukow, [浦口] opposite Nanking on the Yangtze River – first suggested in September 1916 by Chow Tzu-ch'i, [周自齊]⁶⁴³ Minister of Agriculture and Commerce between Chang Chien and Chang Kuo-kan. Wong Wen-hao produced, on behalf of the Geological Institute's Swedish advisor

⁶⁴¹ Yamamoto, ed. *Nikki*, 133-134.

⁶⁴² Lin, *Economic Development and Transition*, 93.

⁶⁴³ "Zhenxing Zhongguo Gangtieye Yijianshu", [振興中國鋼鐵業意見書] 22-23. In *Nongshangbu Mian Mao Tie Deng Jian* [農商部棉毛鐵等件], CASS-MHI, Jia-250.163

Johan Gunnar Andersson, a report entitled “Suggestions on the Reinvigoration of the Chinese Steel Industry” [振興中國鋼鐵業意見書] in addition to two other documents, one on China’s coal and steel reserves, the other on the wartime demand and supply of mineral products.⁶⁴⁴ Andersson’s report contained a summary of the conditions at all sites where iron deposits have been found, and suggested that large numbers of steelworks be built to make use of locally produced ore, in order to implement an import-substitution and export-led policy for pig iron and steel products.⁶⁴⁵

Unfortunately for Tuan’s government, the Hanyehping Company, [漢冶萍公司] – at the time China’s largest industrial complex, comprising of three separate sites in Central China : the Hanyang Steelworks set up by Viceroy Chang Chih-tung, linked by railways and waterways with iron mines at Tayeh [大冶] and a colliery at Ping-hsiang [萍鄉] – was no longer in Chinese control. The Company had been the subject of an unsuccessful takeover earlier on. Sheng Hsuan-huai, desperate to raise 20,000,000 Yen to build new furnaces at Tayeh, decided to secure the loan with the Hanyehping complex, which the Mitsui Group tried to take over when the loan defaulted in 1914.⁶⁴⁶ In 1915 the Complex was made jointly-managed by China and Japan under the Twenty-one Demands. The Peking Government under Yuan Shih-k’ai was deprived of his country’s most valuable industrial asset and the guarantee of his military strength. Chinese policy-makers, rudely awakened by this sudden loss, realised that remedial measures must be taken, and their leading advocates was none other than the geologists at the Ministry of Agriculture, who drafted a memorandum entitled “Proposal for the Chinese Steel Industry”, [中國鐵業計畫書] labelled “Top Secret : Not to be disclosed”. It contains no date but was likely written in mid-to-late 1917; appended to it was a “Proposal for Mo-ling Iron Mine and Pukow Steelworks” [秣陵鐵礦浦口鐵廠計畫書] which estimated that the machinery

⁶⁴⁴ Li, Xuetong. [李學通] *Weng Wenhao Nianpu* (The Annals of Wong Wen-hao). [翁文灝年譜] Jinan : Shandong Jiaoyu Chubanshe, [山東教育出版社] 2005. 25.

⁶⁴⁵ “Zhenxing Zhongguo Gangtieye Yijianshu”, [振興中國鋼鐵業意見書] 30

⁶⁴⁶ George Ernest Morrison, advisor to the Chinese President, lamented that – “Probably no finer gift has ever been made by one nation to another than the Hanyehping contract, by which Japan for a long period of years is to be sold the products of the Tayeh iron mines for \$1.50 gold per ton. The concession carries with it many advantages, the stationing of troops at the Tayeh mines and the keeping open of communications between Tayeh and the river being not the least of them. This is not exactly a concession. It is a right insisted upon by Japan by virtue of her interest.” (Lo, Hui-min, ed. *The Correspondence of G. E. Morrison*, vol. 1. Cambridge and New York : Cambridge University Press, 1976.296.)

required will be shipped from the United States by the end of 1919, “one and a half years” from the writing of the proposal.⁶⁴⁷ It opened with this statement –

In today’s world, nothing is more crucial to the survival of a nation other than steel. In recent years steel imports have cost China tens of millions per annum, without taking yet into account expenses on machinery. Since war began in Europe military equipment has been much sought after by the belligerent states, and the cost of machinery must necessarily increase. From the point of view of the policy-maker considering the country’s military and financial circumstances, this is a frightening situation. China is known for the richness of its iron ore deposits; if it fails to catch up with the latest developments by drawing comprehensive plans, these resources will be laid to waste, and serve only as temptation to our neighbours. It is in the fundamental interest of nation-building that we embark as soon as possible on practical action.⁶⁴⁸

The “Proposal for the Chinese Steel Industry” contained detailed analysis of the iron ore and coal deposits around China and their present ownership. Its geologist authors presented an array of options from which two sites were deemed to be the best – one near Peking for a “Northern Steelworks”, the other being Pukow. The latter was within reach via railways of iron mines to be excavated at Mo-ling-kwan [秣陵關] in Kiangsu, whilst coke would come from a vastly expanded colliery at I-hsien [嶧縣] in Shantung. The equipment and technicians would come from the United States, since “all European manufacturers have for now been requisitioned by their governments which are still complaining of a lack of productive capacity [...] but American manufacturers are numerous and have maintained cordial relations

⁶⁴⁷ “Moling Tiekuan Pukou Tiechang Jihuashu”, [秣陵鐵礦浦口鐵廠計畫書] 17. In *Zhongguo Tieye Jihuashu*, [中國鐵業計畫書] CASS-MHI, Yi-G54; As such it is unlikely to have been written by Liang Shih-i, who was on exile at the time. This is despite his annals [年譜] containing a copy of the Proposal for the Chinese Steel Industry and credited Liang for its authorship; Liang was a traditional bureaucrat who could not have written the detailed, scientific surveys contained in the proposal. (Cen, *Sanshui Liang Yansun Xiansheng Nianpu*, 459-469.)

⁶⁴⁸ The Proposal continued to state the appalling state of sovereign control over China’s mineral resources. “Of the mines currently in existence, Chin-ling-chen [金嶺鎮] is of course entirely in foreign control and beyond our reach; those at Miao-er-kou [廟兒溝] and An-shan-chan [安山站] are jointly-owned only in name, for in reality they have fallen into foreign hands; whilst although Hanyehping is still referred to as a Chinese enterprise, it has pledged a forty-year contract that in effect surrenders its iron ore and steel products, and what remains of the deposits have already been deemed insufficient for that end; the fate of the T’ao-chung [桃沖] mine is soon to follow the footsteps of Hanyehping due to it having been secured for a foreign loan. [...] China produces 300,000 tons of iron ore every year, and yet its potential could only be realised if we could resume our sovereignty over it.” *Zhongguo Tieye Jihuashu*, [中國鐵業計畫書] 1, 3.

with our government, and are surely going to provide us much more helpful service.”⁶⁴⁹ If all went to plan, “the mines should begin work by spring in the eighth year of the Republic, [1919] and the steelworks be in operation by the end of the ninth year, [1920] or the spring of the tenth year. [1921]”⁶⁵⁰

By spring 1921 latest, China would have had a second steel production plant, built at the cost of \$23,300,000, producing 240,000 tons of cast iron per annum, or an addition of 80% to the present production capacity. National steel output would increase from less than 30,000 tons in 1917 to 112,500 tons. At wartime prices this would generate a revenue of Mex \$5,686,200 from cast iron products, and \$9,450,000 from steel products, giving a total of more than \$15,000,000 per annum. At peacetime the revenue would be only a fraction of that amount, at \$3,700,000, but would still be a sizeable amount in any case. Clearly, if wartime steel prices are to be taken advantage of, the geologists would need to race with time to materialise their proposals and start operation at the plant before the conflict in Europe, already in a state of fatigue, comes to an inevitable end. Tuan’s government immediately set to work on financing the programme; having joined the Allies in the war against Germany and Austria, China was exempted from paying the portion of the Boxer Indemnity owed to the Central Powers and was promised an increase in the customs tariff from an actual 3% to the 5% stipulated in the foreign treaties. According to the memoirs of the Minister of Agriculture and Commerce, Chang Kuo-kan –

“We were informed by telegraph by Dr. Wellington Koo, [顧維鈞] our Minister to the United States, that should Chinese troops join the war, the United States would offer to subsidise \$200,000,000 of our military expenses [...] if this could be realised, then apart from the actual cost of sending our troops abroad, which our military experts have estimated that if such troops consist of three divisions they will cost only a third of the amount that America has offered us, then the rest of that sum can be handed over to the [planned] Central Bank, and finance post-war industrial construction in China.”⁶⁵¹

⁶⁴⁹ “Moling Tiekuang Pukou Tiechang Jihuashu”, [秣陵鐵礦浦口鐵廠計畫書] 14

⁶⁵⁰ Ibid., 17

⁶⁵¹ Xu, Tian. [許田] (Alias of Chang, Kuo-kan/Zhang Guogan) [張國淦] “Dui De Ao Canzhan”. (Declaring War Against Germany and Austria) [對德奧參戰] In *Jindaishi Ziliao*, [近代史資料] 1954 (2), 87.

Liang Ch'i-ch'ao, then Finance Minister, was a principal negotiator for the postponement and partial wavering of the Boxer Indemnities as well as other inter-allied agreements providing favourable conditions for Chinese entry into the war. He had an ambitious plan to raise 10 million pounds from the Four-Nation Consortium for the reorganisation of Chinese finances by establishing a gold standard to replace silver taels in circulation – an idea that Nishihara picked up on. According to Liang's vision, currency reform would in turn permit a nationwide industrialisation programme not unlike that of Sergei Witte's in late 19th century Russia. However, in his private correspondence with Tuan Ch'i-jui written in September-October 1916, Liang expressed his reservations regarding the practicality of American funding for the Pukow project, and suggested using Japanese funds –

“The circumstances today are that America, our new ally, may yet become our saviour; but our close neighbour, Japan, has all the power to pronounce our death sentence; this close neighbour of ours needs to be persuaded to give up on her murderous intentions (or to delay them) if our new ally may come to our rescue. There is nothing fundamentally wrong about Yuan Shih-k'ai's pro-British diplomacy; his fault was in attempting to force the hand of Britain in trying to resist Japan. At the time being America has yet to provide quite as much assistance to us as our old ally, Britain; and although we have gained for ourselves this new ally, we must be prudent in our requests towards her. If any suspicions are aroused in Japan that we are using our new ally [America] as leverage, the diplomatic consequences will be complex beyond imagination, and yet [America] will never be able to come to our rescue. I suggest that we take this opportunity to continue to express our sincere desire of friendship with this close neighbour of ours, Japan [...] any plans to use American funding to expand our industry must be dealt with extreme caution, lest any distrust arise from it.”⁶⁵²

Liang further recommended in this letter that China places trust in Japan on the Shantung question, that financial institutions in Manchuria be jointly-run with Japan, that the ban on rice exports to Japan be lifted, that Japanese funds and experts be

⁶⁵² Ting Ven-kiang & Zhao Fengtian, *Liang Qichao Nianpu Changbian* (Extended Annals of Liang Ch'i-ch'ao) [梁啟超年譜長編] Shanghai: Renmin Chubanshe, 1983. 796. Mysteriously this letter was removed from the 2010 edition of the *Annals*, presumably because it showed Liang Ch'i-ch'ao to be too overtly pro-Japanese.

employed in the establishment of a gold standard, and that China rely on Japan assistance on the question of raising customs tariffs. He even suggested that a medal be presented to Gotō Shinpei whilst communicating to him on a semi-official basis the stance of the Chinese government.⁶⁵³ On 23rd August, 1917, after assuming the post of Minister of Finance, Liang wrote to Inukai Tsuyoshi asking for help with mediating Japanese aid to China, particularly with regards to currency reform, for which the opportunity was ripe given the massive growth in Japanese exports and the excess capital that it now possessed. Liang wrote that it was to the fortune of both countries that Sino-Japanese mutual assistance and friendship has become the dominant discourse, and he hoped to discuss concrete plans for putting the new objectives in action.⁶⁵⁴ It is unclear, however, how Inukai responded to Liang, given that the former had temporarily retired from politics after Terauchi Masatake had become Prime Minister; Liang's choice of Inukai as his contact on such an important matter was therefore unfortunate.

The American funds were ultimately not forthcoming, due probably to the Lansing-Ishii Agreement of November 1917, which recognised Japan's special interests in China; Nishihara then stepped in to provide finance, not only for the plans to establish the steel complex, but also for more Geological Surveys in China and Liang's currency reform. Nishihara turned China's self-sufficiency and export programme into one that encompassed Japan and suggested that the latter take the initiative in promoting the project. Instead of ideas coming unilaterally from Japan into China, Nishihara's policy for China was the result of a dialogue of sorts. Above all, Nishihara understood better than Chang Chien, that to achieve the vision of a vibrant, industrial economy set out by these Chinese bureaucrats, Japanese cooperation was prerequisite, and indeed such could only have been materialised by transnational coordination. The aim of expansion of Chinese exports was also one that fitted nicely with Japan's wish to expand imports of cotton and iron from China. Chang Chien had argued that Chinese exports of steel and wool could help reverse trade imbalances; Nishihara did not oppose this, and implied that whatever imbalance Japan suffered as a result could be compensated by exports to China of finished products. This was a constructive approach to trade, for it results in higher amounts of goods being sold and larger money flows each way.

⁶⁵³ Ting & Zhao, *Liang Qichao*, 797.

⁶⁵⁴ Ting & Zhao, *Liang Rengong*, 437.

Thus by late 1917 talk was abound that Nishihara was willing to lend exactly the same sum as had been offered by America, without an obligation that Tuan's government deploy troops to Europe. When Chang Kuo-kan, suspicious of Japanese motives, enquired about the rumours, Liang gave "deliberately muddled answers"; in his memoirs written in the 1930s and published in 1954, Chang described the following scene –

"The next day I was going to ask [Premier Tuan] about the loans after the State Council meeting. To my surprise Tuan handed me a contract on the Pukow Steelworks towards the end of the meeting asking me to sign it. The contract stipulated that the steelworks were to be a cooperative project between China and Japan. Tuan told me that 'everything has been arranged'. I took a glance at the contract, and found that it comprised only of five articles [...] I said, "This contract doesn't seem to agree with your principles," to which Tuan replied, "now is not the time to discuss the matter." "But this is a very important matter. Please allow me some time to think about it," I said. Tuan was evidently livid and the other cabinet members were shocked and speechless. [The Minister of Education] Fan Yuan-lien [范源廉] asked for the contract, but Tuan ignored him, put the document back into his briefcase, and walked away angrily."⁶⁵⁵

Chang Kuo-kan then wrote a letter to Tuan Ch'i-jui to argue his case –

"Traditionally all trade along the Yangtze falls under the Anglo-American sphere of influence. Now China is fighting alongside the Allies, but it has decided to conclude a separate agreement with Japan to build Pukow steelworks. Minister Lu Tseng-hsiang [陸徵祥] has informed me in private that Britain and America have expressed dissatisfaction and hope for the contrary. Indeed we have no obligation to acknowledge the Anglo-American sphere of influence, but it is also true that Japan has not yet gained a foothold in the Yangtze Valley. If Pukow becomes a Sino-Japanese joint project, Japan will have an excuse to send warships into the Yangtze to protect their assets should any incident arise. We have yet to expel the Anglo-American presence from the Yangtze and now we are adding Japan to the long list of invaders. Haven't you always spoken of the Hanyehping

⁶⁵⁵ Xu, "Dui De Ao Canzhan", 93.

case as being one of gross treason? You know only too clearly what severe consequences there will be if you persist with your Pukow plans.”⁶⁵⁶

In November 1917 Chang resigned along with the rest of Tuan's cabinet; he was not re-appointed when Tuan was again nominated Premier in early 1918. The Pukow contract fell through, the loan was never received, and the steel plant conceived by the geologists Andersson, Ting, Wong and their Minister, Chang Kuo-kan, was never built. The Pukow case is a perfect example to show the sheer difficulty for China to carry out even the most practical of projects, when its hands were tied down by the competing spheres of foreign influence and rendered immobile as a result.

Yet an examination of the draft contract for the Pukow Steelworks, which was kept amongst the Prime Minister Terauchi Masatake's papers and dated 6th August 1917, reveals a more optimistic view of things, and indeed, evidence that contradicts Chang's claims. The draft contract for the “National First Steelworks of the Republic of China”, [中華民國國立第一製鐵廠] was contained within correspondence addressed to the Minister of Communications, Ts'ao Ju-lin. It was to be signed with representatives of the Japan Industrial Bank [興業銀行], the Bank of Chosen [朝鮮銀行] and the Bank of Taiwan, and contains 13, not 5 articles. It had two appendices, the first stipulating that Japanese advisors and technical directors [技術主任] be employed, the second being a contract on the distribution of steel products. This last document contained a clause that said that the products should first satisfy demands from within China, with Japan purchasing from the remaining quota set aside for overseas export. It also said that prices for the products will be decided at the end of July each year according to worldwide trends in steel prices and a forecast of price trends for the upcoming year.⁶⁵⁷ Both stipulations seem fair to China, and indeed reflect Nishihara's view that the supply of Pukow's iron and steel products should prioritise infrastructural projects within China. Considering that Chang Chien never came up with realistic plans to finance his projects, and how Chinese interests factored heavily into Nishihara's considerations – Chinese and Japanese interests having never been mutually-exclusive to him – Nishihara could be said to have rendered service to both China and Japan.

⁶⁵⁶ Ibid., 94.

⁶⁵⁷ “Kokuritsu Dai'ichi Seitetsujō Shakkan Kiyakuan, Dō Fuzokusho” [國立第一製鐵廠借款契約案、同附屬書] In Yamamoto, ed. ed. *Terauchi Masatake*, Lower Volume, 456-459.

An even more startling discovery that sheds new light on Nishihara is that of a draft of a Sino-Japanese treaty found amongst Tanaka Gi'ichi's papers, on returning the Boxer Indemnity to China. The draft treaty stipulated that the whole of Japan's portion of the Boxer Indemnity would be refunded over the course of 23 years between 1918 and 1940. The draft treaty required that an Industrialisation Board [殖産廳] be set up under the Chinese cabinet to administer how the money is spent – and the draft treaty stipulated that this money would go, according to the following ratio, to the ends envisioned by Shibusawa Eiichi and Nishihara – funding cotton cultivation (40%), the breeding of sheep (20%), the carrying out of geological surveys (15%), and the setting up of one tertiary and one ordinary occupational training school each [實業教育學校] in Peking. (15%) Another 10% of the funds would go to the administrative expenses of the Industrialisation Board itself. Industrial Bureaus [產業局] would be set up across the country to oversee Cotton Plantation Laboratories [棉花栽培試驗所] and Sheep Breeding Laboratories. [綿羊繁殖試驗所] The Industrialisation Board would employ one Japanese advisor, three technicians, and two lecturers, with provision for future increases of staff. The Boxer Indemnity would also help with China's transition to the gold standard, though the treaty did not stipulate how much of the funds would go to this purpose.⁶⁵⁸ Had this treaty been signed and these proposals put through, the Anfu regime would have acquired both the institutions and funds for large-scale economic development.

The Cotton and Steel Proposals were not the only industrial programmes drafted by Ting and Wong. The "Proposal for the Chinese Copper Industry" [中國銅業計畫書] probably attracted less attention from Nishihara due to Japan being a copper-rich country. Even then, with the conflict in Europe, the authors of the proposal noted that copper prices in New York and London have almost doubled since 1914. China produced only 0.15% of the world total, which was disproportionate to the vast deposits that existed in its provinces, as listed in the proposal. The needs of the munitions industry was also noted, and the fact that Japan's copper was mostly being exported to the west with little to spare for China was also cited as a reason that China should develop its copper industry. Yunnan was suggested to be the priority location for the first stage of development, followed by provinces in the vicinity of Peking or with a railway connection. China's total

⁶⁵⁸ Tanaka Gi'ichi Kankei Monjo (Papers Related to Tanaka Gi'ichi) [田中義一關係文書] 45.

domestic production between 1867-1916 was estimated to be 800,000 tons, and foreign imports during the same period was 200,000; together this was roughly equal to annual worldwide consumption. The proposal suggests that copper coins minted in the past be collected by the government, and the export of copper cash be banned. The proposal was not as clear however as the one on steel with regards to what was to be done with the copper coinage collected, and where, if any, copper processing plants were to be built.⁶⁵⁹ Another proposal which failed to attract Nishihara's attention was the "Proposal for the Mining of Metals in China", [中國金屬礦業計劃書] which listed China's current production and locations of deposits for metals such as nickel, lead, zinc, tin, magnesium and mercury, noting in particular the rich deposits of aluminium in Hunan⁶⁶⁰ — it would be the mid-1930s before the Kuomintang, under Nazi German assistance, began in earnest to exploit these aluminium resources. In both reports the authors suggested a welcoming attitude towards private mining concerns, given the limited capabilities of the state; this stands in stark contrast with the insistence on state-led steel industry development.

Sino-Japanese industrial and financial cooperation would, by the end of 1918 with Terauchi's resignation, become a lost cause; this is particularly so after anti-Japanese sentiment reached its peak with the May Fourth Movement in 1919. As a graduate of the Berlin Kriegsakademie and trained in artillery – the most precise of military sciences in the 1880s – Tuan had acquired a global vision during his two year stay in Germany⁶⁶¹ and had witnessed Bismarck's State Socialism at first hand; there is no question that he would have been just as eager to see China industrialised as his ministers Chang Kuo-kan and Liang Ch'i-ch'ao. Unfortunately, in the eyes of Chang Kuo-kan and other Nishihara sceptics, items such as the Pukow contract demonstrate that the Chinese government would be forced to choose between a miserable independence should it reject Nishihara, and exploited subjugation should it accept Nishihara's terms. The first irony would be that three years later, in 1921, long after Nishihara's projects had become moribund, President Hsu Shih-ch'ang [徐世昌] would be openly advocating Sino-Japanese cooperation in a book

⁶⁵⁹ "Zhongguo Tongye Jihuashu", [中國銅業計劃書] in Ru, ed. "Shiye Jihua", 91-108. The Finance Ministry under Ch'en Chin-t'ao had probably taken note of these lucrative possibilities, for in April 1917 he was dismissed from his post by Tuan Ch'i-jui and arrested after he was implicated in a corruption scandal involving the construction of a copper smelting plant that collected and melted old copper cash.

⁶⁶⁰ "Zhongguo Jinshu Kuangye Jihuashu", [中國金屬礦業計劃書] in Ibid., 109-119.

⁶⁶¹ Xu, *China and the Great War*, 212.

entitled *China after the European War*. [歐戰後之中國] This had been ghost-written in 1919-1920 by Huang Fu. [黃郛]⁶⁶² In this book, Hsu – or Huang – expressed approval towards the February 1919 book, *Post-war Strategy for the Economy and the Nation* [戰後經濟國民策] written by the ASSP leader Soeda Ju'ichi. [添田壽一] Soeda repeated Nishihara's notions of providing capital to China's pastoral industry – given “rich supplies of wool and camel fur in Mongolia” – and also to develop China's iron mines and cotton cultivation. This, in Huang's words, would “resolve [Japan's] problem with an excess of capital and the procurement of raw materials at one stroke. Should proper methods be found [the two countries will be] sympathetic to each other and provide the other with what she needs, especially in times of urgency; the closeness of relations between China and Japan will henceforth hardly require explanation.”⁶⁶³ It scarcely needs to be said that such methods were never found. The second irony would be that in 1932, Ch'en Kung-po, [陳公博] Minister of Industry [實業部長] of the National Government, would announce a Four-Year Plan which encompassed coal, steel, oil, car-making and other industries, and this included a National Steelworks at Pukow that would produce a modest 100,000 tons per annum. It was to be funded by Gute-Hoffnung, a German concern, which would provide 16 to 20 million yuan in loans.⁶⁶⁴ In neither case, however, would there be allegations of selling-out.

⁶⁶² Huang, a former soldier and graduate of the Tōkyō Shinbu Gakkō [東京振武學校] had been an underground member of the Revolutionary League and participated in several revolutions beginning in 1911; whilst in Germany in 1920 Huang had dinner with Walther Rathenau, whom as Foreign Minister of the Weimar Government was eager to use Huang's connections to re-establish trade with China, leading to the signing in May 1921 of China's first equal treaty, the “Agreement Regarding the Restoration of the State of Peace between Germany and China”; [中德協約] this was necessary due to China's refusal to sign the Treaty of Versailles in 1919. (Shen, Yiyun. [沈亦雲] Yiyun Huiyi. [亦雲回憶] 2 vols. Changsha: Yuelu Shushe, [岳麓書社] 2017. 169.)

⁶⁶³ Hsu, Shih-chang. [徐世昌] *Ouzhan hou zhi Zhongguo*. (China after the European Conflict) [歐戰後之中國] Shanghai: Chung-hwa Books, [中華書店] 1921. 110-112. “添田壽一氏之論，一則約供給我畜牧業家以資金，再則約供給我植綿業者以資金，幾欲將餘資疏洩問題，與原料取給問題，同時解決，以收一舉兩得之效。惟果能覓得妥善方法，互相諒解，則有無相通，緩急相濟，將來中日關係之密切，蓋有不帶詳言而自明矣。”

⁶⁶⁴ William Kirby, [柯偉林] *Deguo yu Zhonghua Minguo*. (Germany and Republican China) [德國與中華民國] Chen Qianping [陳謙平] et al, trans. Nanjing: Jiangsu Renmin Chubanshe, [江蘇人民出版社] 2006. 95-96.

4 State Socialism After the Nishihara Loans

4.1 State Capitalism and State Socialism in China, 1919-1949

Arguably the greatest failure of Nishihara's diplomacy was that it didn't cast a positive image for itself by prioritising policies that would have won Chinese hearts – such as returning the Boxer Indemnity. Instead, such proposals were allowed to lapse, and other treaties such as the Army and Naval agreements of mid-1918, which were expectedly unpopular with the Chinese students, were given the go ahead instead. Most disastrously, Nishihara failed to deliver a satisfactory solution to the Shantung Question. In all possibility, Japan's uncompromising stance probably had much to do with its ambitions for north-western China and Central Asia, as we have seen. When the Shantung Question did explode at the Versailles Conference, it led to a point of no return in Sino-Japanese relations in the form of China's May Fourth Movement – an event that was not as civilised as it is usually assumed to be. Chang Tsung-hsiang, the co-architect of the Nishihara Loans, was seized by students at Ts'ao Ju-lin's residence on the first day of protests and severely injured after a round of beating; Ts'ao's house was burnt down by the furious crowd. Liang Ch'i-ch'ao's desperate dispatches from Paris, where he was an observer at the conference, contributed significantly to the popular furore.

Two months after the rioting, on 8th July, 1919, the Anfu Club held a meeting for its MPs, where the party whip Wang I-tang, [王揖唐] a Hosei University [法政大學] graduate, delivered a speech which amounted to declaring that the Anfu Club would take steps to become a socialist party. Wang judged the Doctrine of Popular Livelihood [民生主義] to be a “goal that can no longer be retarded” after the Great War, and explained that the “radicals” [過激派] in Russia and elsewhere – whose advocacies have found a willing audience in China – had been “agitated by the domination of wealth and the enslavement of labour by large landowners and capitalists”.⁶⁶⁵ He noted that advocacies similar to Communism were not alien to China, having begun by Xu Xing, [許行] an agrarian thinker from the 4th century BC who argued that one should eat the fruits of his own labour and that land holdings and agricultural work should be distributed equally; [自食其力、均田均耕] Xu had also condemned exploitation and hoarding by merchants, and said that a wise

⁶⁶⁵ “Zuori Anfubu zhi Yiyuanhui” (“The Anfu Club MP Assembly Yesterday”), [昨日安福部之議員會] in Gongyan Bao, [公言報] 1917-07-09, 2. “所謂過激派原油大地主及資本家壟斷資財奴隸勞動所激成”.

emperor should plough in the fields together with his subjects.⁶⁶⁶ The impracticability of such primitive communism, noted Wang, had already been pointed out by Xu's contemporary, Mencius; [孟子] but even he harboured certain "socialistic" sentiments, with the motto that "The people are the most important, followed by the State, with the Emperor being the least." Wang explained that –

"The direct responsibility of safeguarding the survival of the people lies with the government, and yet the indirect responsibility, to fight for the welfare and survival of the people, lies actually with political parties. Our party has for its aim the protection of popular livelihood, and we are the majority party in parliament; the responsibility thus lies solely with us, and we are bound morally to it. This club intends to form specially a research committee [on socialism]".⁶⁶⁷

The orthodox interpretation of Wang's speech, as exemplified by Deng Ye's [鄧野] paper from 1985, was that it was a ridiculous attempt by the reactionary ruling class to comprehend and thus to contain socialism. "Wang's explanation of socialism once again reflects the historical condition that socialist advocacies faced during their initial introduction to China – that they would be distorted and deliberately misinterpreted by the ruling classes", wrote Deng. After the momentous events of the May Fourth Movement, "even within the Anfu Club – the most conservative and reactionary of political parties", socialism had created an echo, and its tide could no longer be resisted. [莫之能禦]⁶⁶⁸ In response to Wang's speech, Hu Shih, [胡適] the liberalist thinker and student of John Dewey, published in July 1919 an essay entitled "Study more issues, speak less of ideologies" [多研究些問題，少談些主義] where he openly attacked politicians like Wang I-tang, in addition to indirect criticism of the leaders of the rising left-wing movement for their obsession with ideologies and neglect of real and practical issues. "If even the Anfu Party can talk about the Doctrine of Popular Livelihood, isn't it enough to teach us, the new leaders of popular opinion, something important?" Hu Shih then condemned the ideologies

⁶⁶⁶ Li, Yan. [李彥] "Luelun Xu Xing Nongjia Xuepai de Jingji Zhuzhang" (A Brief Account of the Economic Advocacies of the Agrarianists under Xu Xing) [略論許行農家學派的經濟主張] In *Jilin Agriculture*, [吉林農業] 2012 (11), 267.

⁶⁶⁷ "Zuori Anfubu zhi Yiyuanhui", in *Gongyan Bao*, 1917-07-09, 2. "替人民直接謀生存責在政府，然間接替人民謀幸福及生存者，責任實在政黨。吾黨既以保育生民為政綱，且居國會之多數黨，責無旁貸，義不容辭。擬在本部特別組織研究會"

⁶⁶⁸ Deng, Ye. [鄧野] "Wang Yitang de 'Shehuizhuyi' Yanshuo he 'Wenti yu Zhuyi' Lunzhan de Yuanqi" (Wang I-tang's Speech on 'Socialism' and the Origins of the 'Issues and -Isms' Debate", [王揖唐的"社會主義"演說和"問題與主義"論戰的緣起] In *Jindaishi Yanjiu*, [近代史研究] 1985 (6), 256.

as something that even “cats, dogs, parrots and gramophones” can talk about, that empty rhetoric on imported ideologies are of no use because they had been formed in foreign environments in response to their actual needs; and that obsession with “ideologies on paper” is dangerous. In a Wilsonian liberal spirit, Hu wrote –

“People everywhere know about the poison of Statism as employed by European politicians and capitalists. And now Chinese politicians are going to bully people with this or that ideology. Madame Roland once said, ‘O Liberty, how many crimes are committed in thy name!’ Every ideology that sounds nice bears the same danger.”⁶⁶⁹

Hu’s essay triggered heavy fighting between him and socialists led by the Waseda graduate Li Ta-chao [李大釗] – the two ends of the spectrum within the community formed around the *La Jeunesse* [新青年] magazine which was central to the May Fourth Movement. Known as the “Issues and Isms’ Debate” [問題與主義之爭] the responses that Li made helped solidify the ideological positions of the left-wing movement, culminating in their congregation as the Chinese Communist Party in 1920. What was then left forgotten is the initial spark – Wang I-tang’s speech. The backdrop to the speech was, as Deng Ye judged, an editorial published on the Kung Yen Pao, [公言報] the party newspaper of the Anfu Club, entitled “Advice to Politicians and Military Leaders on Dangerous Ideologies” [論危險思潮敬告為政者與將帥] on 27-28th June, 1919. Deng noted that they proposed a number of measures to counter the rising tide of radicalism, the first of which being that “politicians and military leaders should pay attention to studying socialism”; Wang’s speech, according to Deng, was a direct response to this appeal.⁶⁷⁰ Deng failed to notice that the “radicalism” identified by the editorials referred only to Anarchism and Communism – not to be conflated with Socialism – and that the remedial measures recommended included “the gradual implementation of Social Policy”, noting that –

“Socialism aims to equalise the rich with the impoverished, and to improve the welfare of the people, so that for everyone beneath heaven, it will be from each according to ability and to each according to need. If there is no theft from above and no intention to steal from below, there shall be no room for the growth of dangerous thought. [...] In essence, Anarchism and

⁶⁶⁹ Hu, Shi. “Duo Yanjiu Xie Wenti, Shao Tan Xie Zhuyi” (“Study more issues, speak less of ideologies”) [多研究些問題，少談些主義] Wikisource. <<https://zh.wikisource.org/zh-hant/多研究些問題，少談些主義>> Accessed on 2018-09-01.

⁶⁷⁰ Deng, “Wang Yitang”, 256.

Egalitarianism differ greatly from customs practiced for many millennia, and could be dangerous if implemented, but there is no danger whatsoever in Social Policy. [社會政策]”⁶⁷¹

Social Policy as such should include the protection and rewarding of labour, reforms to inheritance and to tariffs – the editorial noted that the light tariffs on imported items, tobacco, alcohol and luxuries should be increased, and heavy duties on daily commodities such as salt should be lessened. The other two measures included “placing emphasis on the promotion of education”, and that “politicians and military leaders should make the painful determination to reform themselves”, noting that attempts to stem the tide of dangerous ideologies without enacting reform to a society plagued by a wide wealth gap would be as futile as the attempts by the Manchu regime to prevent the revolution, and that the same can be said of the measures against labour undertaken by the capitalists in the west and in Japan.⁶⁷² The Kung Yen Pao also published, on 8-9th July, articles on how the labour question in Japan was being tackled with social policies that included the establishment by the Home Ministry of adjudication committees for labour disputes under the *Shin'ai Kyōkai*, [信愛協會] which had been set up by the Japan Industrial Club in May 1919 upon the instigation of Home Minister Tokonami Takejirō; [床次竹二郎]⁶⁷³ in addition to the establishment of the Ōsaka Central Labour Exchange [大阪中央職業介紹所] to relieve unemployment, a new model workers' housing estate in West Noda [西野田] in northern Ōsaka, and the promotion of workers' education and savings.⁶⁷⁴

Moreover the newspaper announced on 26th June that a Labour Protection Ordinance [保護勞工條例] had been passed by the “Post-war Economic Investigation Commission”, [戰後經濟調查會] successor to the “Economic Investigation Commission” under the Ministry of Agriculture and Commerce; the bill was submitted for discussion in the Cabinet and was deemed to be suitable for immediate implementation, and the Ministry has decreed to all provincial civil and military leaders that they should see to its implementation by persons responsible

⁶⁷¹ “Lun Weixian Sichao Jinggao Weizhengzhe yu Jiangshuai”, [論危險思潮敬告為政者與將帥] in Gongyan Bao, 1919-06-28, 2. Thus it harks back to Shiba Teikichi's *On National Society*, which argued that unless the state took the lead in implementing social policy, it would be too late when socialist and anarchist organisers seize the initiative and put the state on the permanent defensive.

⁶⁷² “Lun Weixian Sichao Jinggao Weizhengzhe yu Jiangshuai”, in Gongyan Bao, 1919-06-28, 2
⁶⁷³ Kinzley. *Industrial Harmony*, 40-41.

⁶⁷⁴ “Ribei zhi Laodong Wentu”, [日本之勞動問題] in Ibid., 1919-07-08, 1; 1919-07-09, 1

for the operation of factories.⁶⁷⁵ The text of the Ordinance was published on the Kung Yen Pao on 21st and 22nd July, 1919, and stipulated amongst other things, that Sundays are national holidays, that workers could not work in both day and night shifts, that 12pm-1pm must be set aside for rest, and that male workers between the age of 14-17 and female workers between the age of 15-19 would be regarded as 'young labourers' [幼年工] and should be given nothing more than light work that does not inhibit their education or physical development.⁶⁷⁶ Factory owners should set up half-day or night schools close to the worksite, and hold classes at least once a week. Heavy work should only be assigned upon the worker's consent, and factories deemed unsanitary or having unsafe machinery will not be allowed to recruit workers. Workers who have worked for ten years in a factory should be given a bonus by the factory owner, who is also responsible for the workers' old age pension, the amount of which should be equal to the wages paid during the worker's last year of service. Factory owners should insure their workers against disability caused by working accidents. The state would implement workers' fares for transport, promote postal savings amongst workers, issue bonds for workers' insurance, and encourage the establishment of credit and consumer cooperatives.⁶⁷⁷ This suggests that Chinese leaders had absorbed the aims of the Japanese "Coordination Association" announced in March 1919, whereby "the government should conduct investigations into and establish as soon as possible labour insurance programmes, mediation, profit sharing and related systems."⁶⁷⁸

All of this serve to show that the government's stance as demonstrated in Wang's speech was not merely a reactionary accommodation with socialism, but a genuine attempt to embrace it, even if it served the purpose of stemming Anarchist and Communist tides. The Bill on Labour Protection, a document neglected by Chinese historians, demonstrates that the Peiyang-Republican regime was making the first steps towards addressing the labour question, and that the subjective will was certainly there to implement, "gradually", social policies that were adapted to China's new needs. These events should be viewed, not in isolation, but in the context of discussions on State Socialism in China since the 1900s, and attempts to enact State Socialist policies during the Republic's first years. President Hsu Shih-

⁶⁷⁵ "Shixing Laogong Tiaoli zhi Tongling", [實行勞工條例之通令] in Ibid., 1919-06-26, 3.

⁶⁷⁶ "Baohu Laogong Fa'an", [保護勞工法案] in Ibid., 1919-07-21, 6.

⁶⁷⁷ "Baohu Laogong Fa'an", in Ibid., 1919-07-22, 6.

⁶⁷⁸ Kinzley, *Industrial Harmony*, 35.

ch'ang [徐世昌] acknowledged in a speech to members of the press on 30th November, 1918 that, after the Great War, “the [powerful] minority in the economic sector, having suffered much hardship, will no longer expend huge sums on warfare, and will definitely transfer them to the expansion of social enterprise. [社會事業] Socialism will therefore see increased influence by the day in the post-war economy.”⁶⁷⁹ President Hsu then announced his aims for the post-war era, to develop the rich agricultural, mineral and manpower resources of China, and to promote widespread education. In his 1921 book *China after the European War*, President Hsu also announced his intention to implement “State Social Policy”, [國家社會政策] but fell back upon the conservative notion of relying on the strength of family and clan bonds within society to alleviate the labour problems that would inevitably arise with the development of industry.⁶⁸⁰ He would not have foreseen that apart from some discussions in 1922-23 regarding the inclusion of a chapter on labour rights into the Draft Constitution,⁶⁸¹ State Socialism would have made its last fling in the Peiyang Republic with the Labour Ordinance and Wang I-tang's speech, before all was submerged in a decade of civil war.

There was, however, one last expression of Saint-Simonian sentiment. This took place in Outer Mongolia, which had been re-occupied by the Chinese Frontier Defence Army [邊防軍] – trained originally as the War Participation Army [參戰軍] for combat in Europe by the military advisor Bansai Rihachirō. [坂西利八郎] By then under the command of Tuan Ch'i-jui's most able lieutenant, the Imperial Japanese Army Academy [陸軍士官學校] graduate Hsu Shu-cheng, [徐樹錚] the troops reached Urga [庫倫] (now Ulaanbaatar) on 8th July, 1919 and remained there until June 1920. They served to pre-empt a Bolshevik or tribal invasion of the suzerainty and worked in collaboration with the occupation of eastern Siberia by Japanese troops. Three months prior to leaving for Outer Mongolia, Hsu presented on 17th April, 1919 his “Policy Outline for the Northwest Frontier”, which received Cabinet approval on 10th

⁶⁷⁹ “Dazongtong Zhaodai Zhongwai Xinwen Jizhe Yanshuoci”, [大總統招待中外新聞記者演說詞] In *Nongshangbu Mian Mao Tie Deng Jian* [農商部棉毛鐵等件], CASS-MHI, Jia-250.163

⁶⁸⁰ Hsu, *Ouzhan hou zhi Zhongguo*, 129.

⁶⁸¹ Du, Qiangqiang. [杜強強] “Minshengyu Xiasfa : Shehuiquan zai Woguo Xianfashi shang de Yuanqi – Minguo Chunian Guanyu Xianfa ‘Shengjizhang’ Cao'an de Zhenglun” (Popular Livelihood and the Constitution: The Origins of Social Rights Provisions in the Constitutional History of this Country – The Debate Regarding the ‘Economics Chapter’ of the Draft Constitution in the Early Years of the Republic.” [民生與憲法：社會權規範在我國憲法史上的緣起 – 民國初年關於憲法‘生計章’草案的爭論] In Fu Hualing [傅華玲] and Zhu Guobin, [朱國斌] eds. *Xianfa Quanli yu Xianzheng : Dangdai Zhongguo Xianfa Wenti Yanjiu*. (Constitutional Power and Constitutional Politics: A Study of Contemporary Chinese Constitutional Issues) [憲法權力與憲政：當代中國憲法問題研究] Hong Kong: HKU Press, 2011.

June. The report opens with the statement that “any administrator for this area will have little chance of doing any good unless he embraces a strong determination to develop the country”,⁶⁸² and announces that “Railroads are the most urgent requirement. Industry, culture, commerce and defense are all dependent on a communication system.” Hsu then listed the “indispensable trunk lines”⁶⁸³ –

- Kalgan [張家口] to Manchuli [滿州里] – 750km
- Kuei-sui [歸綏] (now Hohhot [呼和浩特]) to Kiakhta [恰克圖] via Sair Usu and Urga – 1,000km
- Sair Usu to Uliastai [烏里雅蘇臺] and Kobdo, “turning back through the Altai Mountains” to reach Urumchi [迪化] and thence onto Sui-ting [綏定] (now Ili [伊犁]) – 2,750km
- Uliastai to Tannu-Uriankhai [唐努烏梁海] – 500km
- Link to the Trans-Siberian Railway from Kiakhta once “trouble in Russia has settled down”.

Hsu suggested that these routes, on which “motor vehicles can be used” pending the completion of the railways, will be advantageous to trade. Hsu then declared his “realistic goals”⁶⁸⁴ noting that China must pre-empt “Foreigners [who] have long been eager to exploit these areas” –

“The opening of land and herding can be organised immediately [...] on both sides of the rail lines and cattle and sheep and other animals can be raised in large numbers. Horses are of especial importance. [...] The extraction of minerals can begin immediately. [...] The Altai-Tannu-Urianghai-Kubus Gol area and the Kharchin-Ordos region have all the major metals in large quantity and of excellent quality. [...] Other minerals such as coal and salt also exist in not inconsiderable amounts...”⁶⁸⁵

Centre to the development of Outer Mongolia is the establishment of a “Frontier Bank” [邊業銀行] to issue banknotes and public bonds to raise funds for the first 1000km of railways – the north-south mainline from Kuei-sui via Urga to Kiakhta;

⁶⁸² Howard-Gibbon, *Hsu Shu-cheng*, 17

⁶⁸³ Ibid., 18

⁶⁸⁴ Ibid., 19

⁶⁸⁵ Ibid., 19-20.

each kilometre would require Mex \$40,000, so roughly \$50,000,000 of “Domestic Border Development Bonds” would need to be issued –

“By selling public shares in this bank another three or four million yuan can be raised. Together with [...] the bond issue this will easily total no less than six million yuan. With six million yuan in capital 11 or 12 million yuan in bank notes can easily be put into circulation. With these bank notes small loans can be made as time demands, and motor car and horse drawn wagon companies, farming, herding and mining, all these sorts of ventures, will begin to flourish within a few months. When work on the rail line gets under way it will be more and more viewed as a sound investment. Then the initial debentures can be recalled and the sale of the bonds begun. The plan moves step by step, is sound, and will not fail.”⁶⁸⁶

Hsu proceeded to argue that mere military suppression of the Mongols, being “an unjustifiable use of military power will achieve nothing”, noting with some condescension – not dissimilar to what Gotō Shinpei had described of the Taiwanese – that “The Mongols are suspicious but eager to gain petty advantages and thus are easily won over”.⁶⁸⁷ Despite such colonial overtones Hsu’s report contained a kernel of enlightenment, whereby he advocated that the policy of promoting ignorance amongst Mongols should be reversed by widespread implementation of education; Chinese administrators in Mongolia should learn the Mongolian language, and bans on intermarriages should be removed for the sake of cultural assimilation.⁶⁸⁸

Needless to say, Hsu was over-optimistic with prospects – developmental and colonial – in Outer Mongolia, which were in turn limited by the economic difficulties

⁶⁸⁶ Ibid., 21-22.

⁶⁸⁷ Ibid., 20.

⁶⁸⁸ “Education of the Mongols must be started immediately. From the beginning of the Ch’ing Dynasty [...] it was the policy of the government to keep the Mongols ignorant. Such a policy runs counter to proper human relations and morality. In future if we want to draw the Mongols closer to us [...] unless we make great effort to improve education and pass laws to promote learning, success will be difficult. Now, the Mongols are a dull people and if we were to suddenly force Chinese language and literature upon them there would not be one of them who would not reject it. I think it would be more suitable to have the Chinese first study and achieve some degree of proficiency in written and spoken Mongolian. Government officials, civilians and clerks should study and practice their Mongolian together. As their Mongolian improves so there will be a daily improvement in relations between Chinese and Mongols. Ultimately some Mongols will begin to see the shortcomings of their own language and writing system. Once this happens there will be concerned Mongols taking up the study of Chinese. At that point there will be no need to force them [...] Customs and habits should also be gradually changed. [...] in the Ch’ing Dynasty restrictions did not allow intermarriage between Mongol and Chinese. [...] Present plans require an order to be issued removing all these restrictions. [...] Marriages will take place without the need for active promotion, and rites and customs will assimilate with the passing of time, removing all barriers and distinctions [between the Chinese and the Mongols].” (Ibid., 20-21.)

of the Peking regime. What did prosper, to some extent, were the enterprises in which the Peiyang generals and bureaucrats had invested in Metropolitan China. The “Northern Steelworks” near Peking envisaged by Ting and Wong’s report as an alternative to the Pukow Steelworks, was completed in 1919 as the Shih-ching-shan Steelworks, [石景山煉廠] operated by the Lung-yen Iron Mine Company. [龍煙鐵礦公司] The company was a public-private joint venture, with the private shares mostly subscribed by military men and bureaucrats, the largest shareholder being Tuan Ch’i-jui.⁶⁸⁹ Government-held stock in the company, valued at \$2,500,000, was mostly financed with funds taken from the Nishihara Loans.⁶⁹⁰ President Hsu appointed Lu Tsung-yu as General Manager on 19th April, 1919, with Ting Ven-kiang assuming the post of one of three “government-appointed directors”. [官董事] Whilst the Lung-yen Company was initially a failure, with its opening coinciding unfortunately with the end of the First World War and a sharp drop of worldwide steel prices, investments in banking and textiles proved more successful. In 1917 the Gold City (Jincheng) Bank [金城銀行] was established by the Senator Wang Chih-lung, [王郅隆] one of the Anfu Club’s main financiers; its directors included Hsu Shu-cheng (who held \$110,000 in shares) and Wu Ting-ch’ang, [吳鼎昌] who had graduated from the Tōkyō Higher Commercial School [東京高等商業學校] (now the Hitotsubashi University [一橋大學]) and became Deputy Finance Minister under Liang Ch’i-ch’ao. Many generals and bureaucrats held shares in the bank, including President Hsu Shih-ch’ang.⁶⁹¹ An early beneficiary of the bank’s loans was the Yu-yuan Textiles Mill [裕元紗廠] run by Wang Chih-lung, who died during the 1923 Kanto Earthquake while negotiating a loan with the Ōkura zaibatsu. [大倉財閥] In a manner not dissimilar to the Pereire/German banking-industrial model described by Gerschenkron as typical of “catch-up” nations, throughout the 1920s-30s the Gold

⁶⁸⁹ Tuan Ch’i-jui (Mex \$350,000), followed by Ts’ao Ju-lin (\$220,000); Hsu Shih-ch’ang (\$160,000); Lu Tsung-yu, [陸宗輿] Chinese ambassador to Japan (\$110,000); former Presidents Li Yuan-hung and Feng Kuo-chang [馮國璋] (\$50,000 each); and Liang Shih-i, [梁士詒] Senate President (\$50,000), amongst others. (“Xuanhua Gangtie Jituan Youxian Zeren Gongsu Guidang Dang’an, no.8, Jituan Gongsu, “Longyan Tiekuan Gongsu Gudong Qingce” [宣化鋼鐵集團有限責任公司歸檔檔案，件號 8，集團公司，《龍煙鐵礦公司股東清冊》] Quoted in Lan, Jun. [藍珪] *Longyan Tiekuan Gongsu Yanjiu (1919-1928)* (A Study of the Lung-yen Iron Mine Company) [龍煙鐵礦公司研究 (1919-1928)] Masters Thesis, Hebei University, 2011. 6.)

⁶⁹⁰ Ibid., 6.

⁶⁹¹ President Hsu (\$114,000), Hupeh Military Governor Wang Chan-yuan [王占元] (\$119,000), Liang Shih-i (\$51,000), ex-Progressive Party Premier Hsiung Hsi-ling [熊希齡] (\$50,000). Ts’ao Ju-lin (\$33,000), Li Yuan-hung (\$10,000), etc. 天津财经大学、天津市档案馆. <金城银行史料选编>. 天津人民出版社, 2010. Ling, Yuanhong. [凌遠洪] “Jincheng Yinhang yu Beiyang Zhengju” (The Gold City Bank and Peiyang Politics) [金城銀行與北洋政局] In *Journal of Tangshan Teachers College*, [唐山師範學院學報] 33 (4) (July 2011), 68.

City Bank “emulated the practices of Japanese zaibatsu such as Mitsui and Mitsubishi, and actively promoted the permeation of banking capital in industry. In providing liquidity to the Yung-Chiu-Huang [永久黃] Chemical-industrial Conglomerate, the Gold City Bank adopted a system similar to Japanese Host Banks [主辦銀行] [...] with special attention being paid to managing risks in asset operations”.⁶⁹² In other words the bank assumed an active role in supervising industry, having learnt from Japanese and by extension, German banks.

The 1920-30s were known as the heyday of bureaucratic-entrepreneurial investment, yet until 1932 the only State Socialist movement in China would be that of Sun Yat-sen’s Kuomintang with its Doctrine of Popular Livelihood – the implementation of which under the Chiang Kai-shek regime was sporadic and almost haphazard. The main ideological document on the Doctrine, besides Sun’s lectures contained in the book *Three Principles of the People*, was his 1919 industrial manifesto, *The International Development of China*, [實業計劃] first published in English and aimed at an international audience; the manifesto carried a strong Saint-Simonian *esprit* and detailed a long list of industrial projects including ports, railways and river conservancy that the Kuomintang would carry out once in power, with the help of foreign investment, towards which Sun had maintained a welcoming stance since the 1906-7 Socialism Debate. This manifesto has been credited as the origins of the planned economy in China⁶⁹³ – but as we have seen with the discussions on State Socialism in China throughout the 1900s-10s and with Nishihara’s proposals, the origins of economic planning in China came long before Sun’s manifesto. With some notable exceptions, such as the project to provide the Hwai River with an outlet to the sea, [導淮] the construction of Lien-yun Port [連雲港] and the completion of the Canton-Hankow Railway, [粵漢鐵路] the actual infrastructural achievements of Chiang’s regime would differ greatly from Sun’s script, and even these would be subject to devastating damage during the Sino-Japanese War. On the level of the individual citizen, Chiang initiated a campaign known as the “New Life Movement”, [新生活運動] aimed at instilling modern and

⁶⁹² Bie, Man [別曼] “Jindai Zhongguo Yinqi Hezuo Moshi yu Fengxian Guanli – Yi Jincheng Yinhang yu Yongjiuhuang Jituan de Lishi Shijian wei Kaoju” (Modes of Collaboration and Risk Management between Banks and Corporations in Modern China – A Study Based on the Gold City Bank and the Yung-chiu-huang Group) [近代中國銀企合作模式與風險管理 – 以金城銀行與永久黃集團的歷史實踐為考據] In *Qiusuo*, [求索] 2012 (5), 51.

⁶⁹³ Cheng, Linsun. [程麟蓀] “Zhongguo Jihua Jingji de Qiyuan yu Ziyuan Weiyuanhui” (“The Origins of the Chinese Planned Economy and the Resources Commission.”) [中國計劃經濟的起源與資源委員會] In *21 Shiji Wangluo Ban*, [《二十一世紀》網絡版] 2007 (8), no.65. 2.

healthy habits on a social scale; but the movement, which Fukamachi Hideo [深町英夫] referred to as a kind of “Politics to Discipline the Body”,⁶⁹⁴ would carry deep Fascist overtones, as correspondence between the German diplomats and Berlin on the subject confirmed.⁶⁹⁵ Shan Shilian [單世聯] has characterised it as “a social reform movement that had absorbed German historical experience [in militarism] [and] a total militarisation of the people through Confucian ethical mobilisation.”⁶⁹⁶

For almost a decade from 1927 to 1936, the Kuomintang fought a bitter civil war with the Communist Party, which earned in 1929 an unlikely convert – Yang Tu, the erstwhile Constitutional Monarchist and supporter of Yuan Shih-k'ai. Yang became a party member with Chou En-lai [周恩來] as his referee. In the early 1920s he had briefly attempted a rapprochement with Sun Yat-sen's Kuomintang, and in 1927 he tried and failed to save Li Ta-chao from execution; subsequently Yang donated much of his assets to the Communist Party, by then under purge, and provided shelter to many of its underground agents.⁶⁹⁷ In one of his last essays, Yang added an additional phase of social evolution after the militaristic, semi-humane epoch [半人道時代] where people competed for the means of survival. This new Epoch of Humanity [人道時代] would be marked by communal ownership and equal distribution of food.⁶⁹⁸ Members of the ex-Progressive Party led by Carsun Chang [張君勱] – formerly the secretary of Liang Ch'i-ch'ao, whose death in 1929 deprived the Kuomintang of a strong critic – formed in 1932 the Chinese National Socialist Party, [中國國家社會黨] to advocate a “Modified Democracy” [修正的民主政治] which –

“upheld private property but was against laissez faire competition. The charter of the party argued that the national economy should be taken into account by ‘coherent state planning’; [完整的國家計劃] the State ‘should satisfy social needs by planning gradual industrial development according to social demands’ [by means of a] ‘mixed economy’ [混合經濟] [...] whereby the state would monopolise the exploitation of all natural resources and directly manage concerns such as mines, electricity and railways.”⁶⁹⁹

⁶⁹⁴ Fukamachi, *Jiaoyang Shenti de Zhengzhi*.

⁶⁹⁵ Kirby, *Germany and Republican China*, 201.

⁶⁹⁶ Shan, *Deyizhi Wenhua*, 174-175.

⁶⁹⁷ Zuo, ed. “Introduction”, in *Yang Du Juan*, 13-14.

⁶⁹⁸ “Yangshi Shili”, [楊氏史例] in Zuo, ed. *Yang Du Juan*, 400. “公器公家均食時代”

⁶⁹⁹ Cheng, “Zhongguo Jihua Jingji”, 2.

Chiang's regime did make a serious attempt at consolidating State Capitalism. He began with the effective re-nationalisation of the Bank of China, which in 1917, when Liang Ch'i-ch'ao was Finance Minister, had been reformed to have a Board of Directors elected by shareholders.⁷⁰⁰ On the industrial front Chiang was helped by the technocrats inherited from the Peiyang regime, centred around Ting Ven-kiang and Wong Wen-hao, who were introduced to Chiang by Ch'ien Ch'ang-chao. [錢昌熙] Ch'ien, a friend of Chang Chien's family, had studied in Britain from 1919-1923, first at the London School of Economics as a student of the Fabian Socialist, Harold Laski⁷⁰¹ and then at Oxford University, subsequently joining the Kuomintang in 1928 as secretary to Huang Fu, by then Foreign Minister of the National Government.

Ting, Wong and Chien, in addition to Sun Yue-ch'i [孫越崎] who had studied Mining at Stanford and Columbia Universities, and Wu Ting-ch'ang, the Gold City Bank director, formed the core of the National Government's technocratic corpus, congregating by 1932 in the National Defence Planning Commission, [國防設計委員會] which became the Resources Commission [資源委員會] in 1935. It was placed in charge of all government-controlled industries including the munitions factories, and during the war would carry out a policy of nationalisation of factories deemed to be of strategic importance – to the dismay of liberalists like Hu Shih.⁷⁰² Since 1932 the Kuomintang had begun a phase of "Political Tutelage" [訓政] which corresponded more or less with the enlightened despotism advocated by Liang in the 1900s; such "Tutelage" was meant to exercise "political training" of the citizenry in preparation for the future phase of "Political Constitutionalism" [憲政] – i.e. democracy. This triggered, during the 1930s, a long debate on democracy and autocracy, with Hu Shih and Ting Ven-kiang forming the core figures of the opposing camps; Ting argued – to the delight of the Nanking authorities – that China needed strong man politics, amounting to a form of developmental-authoritarianism; yet embarrassingly for his Kuomintang admirers, Ting's model autocracy was the Soviet Union under Joseph Stalin.⁷⁰³

⁷⁰⁰ Zheng, Huixin. [鄭會欣] "Guanyu Zhang Jia'ao Bei Chehuan de Jingguo" (On the Events Surrounding the Replacement of Chang Kia-ngau) [關於張嘉璈被撤換的經過] In *Xueshu Yuekan*, [學術月刊] 1986 (11), 55-59.

⁷⁰¹ Sun, Hongyun. [孫宏雲] "Minzhu Shehui Zhuyi yu Minguo Zhengzhi – Lasiji zai Zhongguo de Yingxiang" (Democratic Socialism and Republican Politics – The Influence of Harold Laski in China) [民主社會主義與民國政治 – 拉斯基在中國的影響] In *21 Shiji*, 2008(8), no. 108, 51.

⁷⁰² Hu Songping. [胡頌平] *Hu Shizhi Xiansheng Nianpu Changbian Chugao* [胡適之先生年譜長編初稿] vol. 7, 2374. Quoted in *Ibid.*, 55.

⁷⁰³ Shan, *Deyizhi Wenhua*, 195-196.

In June 1936 the National Government announced a Five-Year Plan to be implemented with Nazi German assistance; in return for supplies of essential war materiel, notably tungsten, Germany would help equip China's war industries, and provide a loan of 100,000,000 Gold Marks – almost a repeat of the Nishihara Loans. Although the plan achieved some progress they were cut short by the eruption of war with Japan and mostly terminated by late 1938.⁷⁰⁴ Despite this the Resources Commission became responsible for the maintenance of industrial production in the “free areas” during the War of Resistance, and its importance grew to enormous proportions. From May 1944 onwards Ch'ien Ch'ang-chao was responsible for a moribund project to build the Three Gorges Dam on the Yangtze River, complete with a hydroelectricity generating station which would have had a capacity of 1056kW and would have transmitted power to Shanghai, some 1000km away.⁷⁰⁵ Ting Ven-kiang died from carbon monoxide poisoning in 1936 during a survey trip, but Wong Wen-hao was appointed Chief Executive [行政院長] – the Prime Minister of the National Government – in May 1948. Two years prior, at a Resources Commission meeting in 1946, Wong delivered a speech entitled “Creating a New Epoch for the Chinese Economy”, where he stated that the Commission would see as its aim the promotion of State Capital in order to implement the Doctrine of Popular Livelihood, which conforms to international Socialist tendencies –

“The essence of Dr. Sun Yat-sen's speeches on the Doctrine of Popular Livelihood lies in the development of State Capital and the restriction of Private Capital [...] In Dr. Sun Yat-sen's *International Development of China* he states clearly that industrial development should proceed simultaneously on two fronts – private and public management – and says that the various items in the industrial programme should be operated by the state. He states clearly that such state enterprises will need to attract foreign investment and employ foreign talent [...] Thus Dr. Sun Yat-sen had decreed that grand enterprises should be carried out by the state in order to foster State Capital, by which the Doctrine of Popular Livelihood could be implemented. Following the World War countries around the world such as **Britain and France have decided to implement socialism**, with the interests of the whole nation, rather than those of a minority of private

⁷⁰⁴ Cheng, “Zhongguo Jihua Jingji”, 4.

⁷⁰⁵ Feng, Shiyong. [馮世勇] “Qian Changzhao yu Ziyuan Weiyuanhui” (Ch'ien Ch'ang-chao and the Resources Commission). [錢昌照與資源委員會] In Yanhuang Chunqiu, [炎黃春秋] 2007 (11), 41.

entrepreneurs, being prioritised, and they are doing their best to nationalise enterprises of great and public importance. The new cabinet in Japan has also proposed the objective of nationalising all collieries. It may be seen that the spirit of the Doctrine of Popular Livelihood has already been spread amongst all countries, oriental and occidental. Our country must therefore make the effort to realise this as soon as possible. **This commission is established precisely for such an ideology**, and we must think and act on it, so as to make a real contribution to such ends.”⁷⁰⁶

Yet Wong's loyalty to the Kuomintang was not shared by other members of the Commission. Ch'ien Ch'ang-chao understood that his Fabian Socialist convictions would not be effectively implemented by the Kuomintang, which was plagued by corruption and military disorganisation; this prompted his resignation in 1947.⁷⁰⁷ In 1948 Ch'ien and others formed a “China Research Institute on Social Economics” [中國社會經濟研究會] the charter of which mirrored that of the British Fabian Society; it published a magazine, *The New Road* [新路] that advocated a “double democracy” – political and economic democracy – and criticised both the Kuomintang and the Communist Party. The institute was ordered to disband by Nanking in late 1948.⁷⁰⁸ By mid-1949, 90% of the staff of the Resources Commission, including Ch'ien, had defected to the Communist Party,⁷⁰⁹ and formed the core of the PRC's Cabinet Finance and Economy Commission [政務院財政經濟委員會] which in November 1952 became the State Planning Commission. [國家計劃委員會] This body was responsible for restoring the Chinese economy from wartime ruin and to mobilise it for the Korean War, followed by the implementation of Five-Year Plans beginning in 1953. Most bureaucratic-entrepreneurial concerns, such as the Gold City Bank and Lung-yen Iron Mine Company, were nationalised within the first years of the liberation; in 1966 the latter was renamed Capital Steel. [首鋼] As the only tangible legacy of the Nishihara Loans – though it was unintended – the company remains one of China's largest steel producers.

⁷⁰⁶ Wong, Wenhao. “Wei Zhongguo Jingji Chuangli Zhanxin Shidai”. [為中國經濟創立嶄新時代] In Quanguo Zhengxiue Wenshi Ziliao Yanjiu Weiyuanhui Gongshang Jingji Zu, ed. [全國政協文史資料研究委員會工商經濟組] *Huiyi Guomindang Zhengfu Ziyuan Weiyuanhui* (Remembering the Resources Commission of the Kuomintang Government) [回憶國民黨政府資源委員會] Beijing : Zhongguo Wenshi Chubanshe. [中國文史出版社] 1988. 310. Emphases mine.

⁷⁰⁷ Sun, “Minzhu Shehui Zhuyi”, 55.

⁷⁰⁸ Ibid., 57.

⁷⁰⁹ Cheng, “Zhongguo Jihua Jingji”, 10.

Wong Wen-hao, briefly listed as a war criminal by the Communist Party, was pardoned and invited to return to Beijing from Europe in 1951; in December 1954 he was appointed to the People's Political Consultative Conference. [人民政協]⁷¹⁰ This is whilst Ch'ien went on to have an extremely long public career, staying at the forefront of economic planning in the Chinese government until the 1980s, having been brought back by Deng Xiaoping in the early 1970s to restore economic order to the prolonged chaos caused by the Cultural Revolution. In the early 1980s Ch'ien helped plan Hainan Island as a Special Economic Zone, and in 1985 he was made a member of the Drafting Committee of the Basic Law for Hong Kong; he remained active in the preparations for the handover before his death in 1988.⁷¹¹ In 1998 the State Planning Commission was renamed the National Development Planning Commission [國家發展計劃委員會], which became, in 2003, the National Development and Reform Commission [國家發展和改革委員會 (發改委)] – a body which still produces Five-Year Plans for the country and has powers to exercise administrative guidance over industries in a fashion similar to Japan's MITI at its height in the 1960s-70s. This is whilst prominent members of the Resources Commission who went to Taiwan included many famed architects of the Taiwanese economic miracle, especially under the direction of the Soviet-educated son of Chiang Kai-shek, Chiang Ching-kuo, [蔣經國] who was Chief Executive from 1972-78 and President until his death in 1988⁷¹²

⁷¹⁰ Li, *Weng Wenhao Nianpu*, 362, 376

⁷¹¹ Xu, Zubai. [徐祖白] "Zhongsheng Quanquan Aiguoxin – Qian Changzhao de Rensheng zhi Lu" (A Lifelong Dedicated Patriotic Heart – Ch'ien Ch'ang-chao's Life Path) [終生拳拳愛國心 – 錢昌照的人生之路] In *Renwu Chunqiu*, [人物春秋] 2002 (5), 19-20.

⁷¹² These include Economic Ministers Chang Tzu-k'ai, [張茲闓] (1952-1954); Li Kuoh-ting, [李國鼎] (1965-1969, later Finance Minister from 1969-1976); Sun Yun-hsuan, [孫運璿] (1969-1978, later Chief Executive from 1978-1984); and Chao Yao-tung, [趙耀東] (1981-1984). (Quanguo Zhengxie, ed. *Huiji*, 1.)

4.2 State Monopoly Capitalism in Japan and Korea

4.2.1 Nishihara's Domestic Legacy

Nishihara's State Socialism would have entailed a total revamp of the socio-economic and political order of Japan. Assuming Terauchi's support for it, one might be able to say that this State Socialist order could have become the new incarnation, even apex, of a power structure led by the Genro, [元老] a term that denotes the Meiji 'elder statesmen'. The Meiji-Taisho Japanese state would have become, like the ill-fated Lafayette dictatorship and the French Second Empire under Napoleon III, a developmental-authoritarian government that would have delivered liberty, in material form, to its citizens, as well as enjoying reasonable success in peripheral rebellion – together with China, rather than at the cost of the latter. On a lesser level, Nishihara's State Socialism should be viewed within the context of the social reformist policies enacted by Gotō Shinpei as Interior Minister.

Yet the resolution of capital-labour tensions which struck Japan hard after 1917, was left to Tokonami Takejirō, [床次竹二郎] Interior Minister in the Hara cabinet. In December 1918, Tokonami set up a labour-capital "Coordination Association", [協調會] with its Chairman being Kuwata Kumazō, [桑田熊藏] a prominent member of the Social Policy School; indeed the ASSP had by then "in effect become a government organ" with its members being frequently consulted by various ministries on social issues.⁷¹³ In 1920 Tokonami reformed the Relief Section of the Interior Ministry into the Social Bureau. [社會局] It was then tasked with unemployment relief, veterans' care, and children's rights.⁷¹⁴ In December 1918, Tokonami sent out a circular to encourage localities to set up government-established markets, [公設市場] the aim of which was to put a hold on the inflating prices of daily commodities; the effect was said to have been "extraordinary".⁷¹⁵ The daily commodities sold included anything from vegetables, fish, eggs, dried meat and rice, miso, soy sauce, sugar and even charcoal. Sellers at the market would have to have their credentials and credibility reviewed, and the market employed "inspectors with discerning abilities" to monitor the quality and prices of goods and transaction behaviour. To restrain prices, the sellers were forbidden from forming cartels.⁷¹⁶ Tokonami's policy is a

⁷¹³ Kinzley, *Industrial Harmony*, 34.

⁷¹⁴ Maeda, *Tokonami*, 519.

⁷¹⁵ *Ibid.*, 517.

⁷¹⁶ *Ibid.*, 517-518.

greatly scaled-back version of Nishihara's 'town-centre department store' idea, where all commodities would have been supplied by a single state-supervised corporation; but it is nonetheless an important step forward in government intervention in market activity.

Nishihara – or should we say, Rathenau – left two important legacies for Japan. The first was the Bill on the Mobilisation of War Materiel Industries, [軍需工業動員法案] which became law on 26th March 1918, after much debate in and amendment by parliament, which included a clause on the protection of labour rights under conditions of wartime mobilisation – hence producing a parallel with the German situation where State Socialist mobilisation forced an accommodation of labour demands.⁷¹⁷ Two origins exist for this Bill – the first and most frequently quoted was Koiso Kuniaki's [小磯國昭] memorandum "Defence Resources of the Empire" [帝國國防資源] which was written after Koiso came into possession of a book which explained wartime German practices - i.e. Rathenau's methods. The resultant pamphlet by Koiso was thus totally dedicated to wartime mobilisation, and it imagined not only that much of the materiel was to be extracted from China – though without explaining how China could be brought into cooperation with Japan – but that, for the mobilisation of these continental resources, a tunnel would need to be built under the Tsushima Straits between Japan and Korea.⁷¹⁸

The Second origin, as identified by Kōketsu Atsushi,⁷¹⁹ [額瀨厚] was Nishihara's *Private Memorandum on Wartime Economic Mobilisation* [戰時經濟動員計畫私議] dated December 1917, in which many of the basic ideas later expounded in *Strategy for Economic State-Building* were first raised; Nishihara proposed in essence a Ministry of Military Procurement [軍需省] which would coordinate production and consumption through "economic self-governing entities". [經濟的自治體] The shape of the Mobilisation Bill was however very different from Nishihara's original proposals, and Nishihara's suggestions in the October 1918 *Strategy* for the central coordination of production cooperatives could be seen as the revival, within the context of a peacetime, civilian economy, of ideas first proposed for wartime military

⁷¹⁷ Bō'eichō Bō'ei Kenshūjo Zenshishitsu (War History Section, Ministry of Defense Research Institute on Defense). [防衛庁防衛研修所戦史室] Rikugun Gunjū Dōin (1) Keigaku Hen (Army War Materiel Mobilisation vol. 1 Planning), [陸軍軍需動員 <1> 計画編] Tōkyō : Asagumo Shinbunsha, [朝雲新聞社] 1967. 57.

⁷¹⁸ Ibid., 38-41.

⁷¹⁹ Kōketsu, "Mobilisation", 19-22.

mobilisation. Nishihara justified such an advocacy, not so much from the point of view of economic mobilisation, especially against China, but that, only the exertion of state coordination could simultaneously promote domestically better living standards and guarantee a coherent and effective diplomatic line that makes Japan competitive whilst minimising international conflict. Nishihara's civilian-take on Rathenau's methods as opposed to Koiso Kuniaki's strictly military interpretation thus deserves credit for proposing what would in effect be a planned economic system for peacetime, civilian purposes.

The second of Rathenau's legacies was where in early 1920, Gotō Shinpei submitted to Hara Takashi a memorandum entitled "Proposition to Establish a Large Investigation Institute" [大調査機關設立ノ議] where he spoke of the end of the war as an opportunity to "seek national economic development, progress and coordination in industry, and the conciliation of social classes", and that this would also contribute to "Japan's victory in a new kind of international warfare."⁷²⁰ Such an investigation institute, the genealogy of which has been traced back to Nishihara's ideas by Kōketsu Atsushi,⁷²¹ would probably have taken as its prototype the "Mantetsu Chōsabu", [滿鐵調査部] or Research Division of the South Manchuria Railway, set up by Gotō Shinpei in the 1900s as an economic intelligence-gathering institution. Yet, influence from the KRA under Rathenau, particularly in terms of its spider web-like construction centred on an intelligence-processing headquarters, is more than implicit in Gotō's plans. "Rathenau hoped that his department would survive in peacetime as a state planning authority – an 'Economic General Staff' he called it."⁷²² Gotō Shinpei called his investigation institute just that – "Economic General Staff".⁷²³

The proposition was not received with great enthusiasm by Hara Takashi, who made a counter-offer of setting up a "Provisional Industrial Policy Research Committee" with a budget of 10 million yen, rather than the 20-30 million yen Gotō asked for; but even this idea didn't deviate too much from the Rathenau paradigm. Gotō rejected Hara's counter-offer, believing that Hara paid only lip-service to the idea; he also disliked the bureaucratic make-up of such a committee, and strove, just like Rathenau, to have a non-bureaucratic structure – ie. one staffed by leading capitalists – in his institute particularly when it came to drawing up policies for

⁷²⁰ Kitaoka, *Gotō Shinpei*, 189.

⁷²¹ Kōketsu, "Mobilisation", 23-24, note 32.

⁷²² Henderson, "Walther Rathenau", 107.

⁷²³ Kitaoka, *Gotō Shinpei*, 190.

various industrial sectors. The Ministry of Commerce and Industry, which Gotō had proposed and hoped to head, was not set up until much later, in 1925, but until the Second World War, when the Control Associations for industrial sectors were set up, the MCI never enjoyed the extent of power envisaged by Nishihara and Gotō.

According to Suetake Yoshiya, Tanaka Gi'ichi's [田中義一] manifesto as Seiyukai President in December 1925 employed rhetoric similar to Nishihara's, who was at the time helping Tanaka's election campaign.⁷²⁴ Yet Nishihara would later distance himself from Tanaka over the latter's aggressive China policy. Although Tanaka gave up on the ideology early on, Nishihara would continue to advocate State Socialism into the 1920s and 1930s, by which time it would have diverged from its roots in the Social Policy School and acquired more and more of the characteristics of a right-wing ideology, blending into National Socialism and involving personages such as Ōkawa Shūmei. [大川周明] The distinction between State Socialism and National Socialism was never clear in the Japanese context, with both State and Nation being referred to as *kokka*; [國家] but what their advocates consistently denied was the validity of class-based analysis. Taking into consideration how, at the hands of Lenin, Rathenau's State Socialism transitioned into being War Communism by the simple superimposition of proletarian political power, it is possible to explain "National Socialism" as a reaction to Leninism, whereby the proletarian class properties of the state were discarded in favour of ethnically-defined properties; in other words, rather than having the proletarian class in control of the state in "State Socialism", the state would represent a community defined by (pseudo-) biological affinities.

Takabatake Motoyuki, [高畠素之] a prominent National Socialist theoretician of the 1920s, argued that rather than attempting to overcome the repressive state by means of a proletarian revolution, the Nation could only be truly complete [完成] upon the abolition of the exploitation of labour by means of implementing National Socialist policy.⁷²⁵ Hayashi Kimio, [林癸未夫] who wrote extensively on the ideology in the 1930s, argued that National Socialism is the use of Socialist means by the State

⁷²⁴ Suetake, *Taishōki*, 398-399.

⁷²⁵ Hirano Hikizō, [平野力三] "Petition", [上申書] in Fuke, Takahiro. [福家崇洋] *Senkanki Nihon no Shakai Shisō – 'Chōkokka' e no Furonteia*. (Social Thought in Interwar Japan – The Frontier Towards the 'Ultrational') [戦間期日本の社会思想—「超国家」へのフロンティア] Kyōto: Jimbun Shoin, [人文書院] 2010. 441.

for the State – i.e. a Socialism that places its emphasis on Statism.⁷²⁶ Little has changed since Wagner's formulation of the state as the focal point of all action. As Suetake has argued, Nishihara's State Socialism was less about the overthrowing of capitalism, and more on its rationalisation and maximalisation⁷²⁷ – or in Nishihara's terms, the full-utilisation of the economic potential of manpower, materials and institutions; this is despite certain of Nishihara's suggestions being an inevitable hindrance to the normal functioning of market mechanisms.

In any case, the value of Nishihara's State Socialism lies in three aspects – that firstly, it was an inner-establishmentarian movement with the participation of Prime Minister Terauchi for the reform of the state's institutions, and this, given the Genro-based nature of Terauchi's power vis-à-vis the power of the populist parties notably being the Seiyukai, meant that by extension, Nishihara's reforms would have created a new apex for the Genro power establishment. Secondly, Nishihara's State Socialist manifesto was conceived in stages from December 1917 to October 1918, which meant that it was at least a full year ahead of Kita Ikki's [北一輝] much more influential State Socialist manifesto, *Outline of a Bill for the Reorganisation of Japan*, [日本改造法案大綱] which came out in mid-1919. The contents of Nishihara's State Socialism, being aimed at an establishmentarian elite audience rather than members of the fringes of social activism, were much more realistic and practical.

Thirdly, many of Nishihara's ideas had much in common with those of Hara Takashi, particularly on the postponement of the Broad Gauge Conversion project and the abolition of the *gun*. This could mean a number of things – that Hara Takashi and Nishihara had similar political priorities which lie in the improvement of living conditions for the ordinary masses, only that Hara saw this as an electoral strategy whilst for Nishihara, a paternalistic social reformism; and by extension, if these ideas of Nishihara had indeed received support from Terauchi or Gotō Shinpei, what would be implied was a Genro-led strategy of pre-empting electoral support for the populist Seiyukai by taking social policy into its own hands. In any case, Nishihara's suggestion of the strengthening of the production cooperatives, many of which were run by Yamagata Aritomo's local supporters, ran contrary to Hara's objective of abolishing the *gun* in order to weaken Yamagata's allies.

⁷²⁶ “'國家社會主義とは國家が國家のため國家により行ふところの社會主義を謂ふのである'と為し國家主義に重點を置く社會主義であります。” (Ibid, 443.)

⁷²⁷ Suetake, *Taishōki*, 403. Note 10.

Recommendations similar to those made by Nishihara would come to be taken more seriously after the post-war economic depression beginning in 1920. In 1925 the Exporters Association Law and the Major Export Industries Association Law were passed, the latter attempting “to end cutthroat competition” by establishing industrial unions [産業組合] which were “genuine cartels”.⁷²⁸ This is whilst the Japanese Cooperatives, numbering 13,700 in 1921,⁷²⁹ were spared the fate of their failed Irish counterparts. Unlike the Irish Movement, which “never developed either Centrals or the auditing federations to which nearly every German agricultural credit cooperative belonged”,⁷³⁰ the Japanese movement had had since 1909 a central coordinating institution, though its links with the government were never developed to the extent envisaged by Nishihara. Japanese Cooperatives never became the basic economic and political institution of the Japanese state, as the People’s Communes did in China, and remained a social movement.⁷³¹ Still, had Nishihara’s vision been fully implemented, there is little to suggest that the Japanese Cooperative Movement could have achieved the auditing standards which enabled success in Germany, or that the Japanese cooperative members would be as willing as their German counterparts to force the repayment of loans, or carry out sanctioning on non-paying members indebted to the cooperative.⁷³² Finally, there’s no guarantee that the Cooperative Movement wouldn’t be viewed with suspicion by the authorities or the military as a hotbed of socialist mobilisation, as in Ireland where the “Church hierarchy’s suspicion of the cooperative movement may have denied Ireland’s cooperatives some of the leadership that had played an important role in Germany.”⁷³³

⁷²⁸ Johnson, *MITI*, 98.

⁷²⁹ Pyle, “Followership”, 158.

⁷³⁰ T. W. Guinnane, “A Failed Institutional Transplant : Raiffeisen’s Credit Cooperatives in Ireland, 1894-1914.” Discussion Paper # 165, Research Program in Development Studies, Centre of International Studies, Woodrow Wilson School. Princeton : Princeton University, 1992. 17.

⁷³¹ This was probably because, as in Ireland, the Japanese Cooperatives “were not formed until a time when Ireland’s extremely well-developed institutions for rural savers had left no place for an untried, unknown savings organisation. [...] The Post Office Savings Bank accounts paid 2.5% interest on a risk-free deposit; [...] and cooperatives could not be any more convenient than the Post Office.” (Ibid., 21, 13.)

⁷³² As in Ireland, “it is difficult in a country with no business tradition, and where the natural kindness of the people renders them easy-going with regard to mutual obligation, to make them realise the necessity of adhering resolutely to the rules”. This is especially difficult if the money had come, not from members’ contributions, but from governmental sources. In Ireland, “joint-stock banks were happy to provide loans to [...] Irish cooperatives; the lack of a Central was not serious. [...] so long as Irish credit cooperatives were largely conduits for the bundling of government and later bank loans, which they most decidedly were, borrowers would not view the money they invested as truly belonging to their community”. Nishihara had envisaged that the Imperial Bank for the Encouragement of Industry would provide finance to the cooperatives. (Ibid., 16, 19.)

⁷³³ Ibid., 16.

In the event, the prerequisite of the Cooperative Movement as Nishihara saw it – land reform – was not carried out until 1946. After Japan was defeated and taken over by the Allied forces, the Ministry of Agriculture “prepared a bill which was approved by the Cabinet on November 22, 1945 [...] As originally drafted, this Bill was intended to deprive landlords of holdings in excess of three *cho*, to rely on agricultural associations in buying some of the land from landlords, and to encourage direct negotiations between tenants and landlords in other cases.”⁷³⁴ The provisions of this land reform law would have been more lax than Nishihara’s terms.⁷³⁵ Yet, unlike Nishihara who envisaged a huge financial undertaking to be necessary for the land reform, involving 2.6 billion-yen worth of land bonds to be paid over 26 years, the land reform in 1946 was done at a stroke at a relatively cheap price. “According to the October 1946 Law, landlord’s holdings are to be bought by the government at prices so low as to be almost confiscatory. [...] Invoking powers given it under the General Mobilisation Law, the government on September 19, 1939, had frozen the prices of various commodities, including land”.⁷³⁶ Cooperatives have since become an important aspect of post-war Japanese agricultural life, though they never reached the official status or dominating existence envisaged by Nishihara.

4.2.2 Nishihara, Ugaki and Rathenau in Asian Economic Planning

During the mid-1920s Nishihara ran a “National Policy Research Society” [國策研究會] whose members included Yamamoto Jōtarō, [山本条太郎] who was to become President of the South Manchuria Railway in 1926-1928, where he oversaw important reforms. In 1927 Yamamoto published a pamphlet entitled *On National Economic Policy* [經濟國策に就いて] where he repeatedly stressed the necessity of having a “Strategy for Economic State-Building”, [經濟立國策] though without making any reference to Nishihara’s works. The advocacies in *On National Economic Policy* bear a number of similarities to Nishihara’s *Strategy*, including hydro-electricity construction, the expansion of credit by the Bank of Japan, the establishment of Central Markets, controlling inflation, the promotion of consumers’ and producers’ cooperatives which would deal with each other directly to avoid profiteering by

⁷³⁴ Grad, Andrew J. “Land Reform in Japan”. In *Pacific Affairs*, vol. 21, no.2, 1948 (6), 119.

⁷³⁵ “When the Bill was introduced in the Diet, the members of the Progressive and Liberal parties not only endorsed the higher limitation on landlords’ holdings to five instead of three *cho*; in addition, they sought to insert a clause permitting the retention of more than five *cho* in ‘exceptional cases’” but it still “required absentee landowners to sell their land; [...] A landlord was not to be considered as absentee if he lived in a neighbouring village.” (Ibid., 119, 121.)

⁷³⁶ Ibid., 123.

merchants, and so on. Otherwise, Yamamoto's pamphlet modernised Nishihara's industrialism for the 1920s, and now mentions policy targets such as automobile manufacturing, but avoids totally the issue of China Policy.⁷³⁷ Japan was hard-hit by the 1929 Great Depression, and Yamamoto, now head of the Seiyukai's "Political Affairs Investigation Committee", [政務調査會] (Tokonami Takejirō was a member) published in August 1930 a book entitled *Advocating a National Economic Policy* [經濟國策の提唱] which hinted at the possibility of introducing Soviet-styled economic planning to Japan, writing that the way by which the Soviet Union mobilised 48% of its national income for developmental purposes, to double its national income from 24 to 49 billion roubles, would also serve Japan well.⁷³⁸ The book received widespread acclaim from political heavyweights including Inukai Tsuyoshi.⁷³⁹

The publication of this book was meant to coincide with the setting up in June 1930 of the Seiyukai's "Special Committee on a New National Economic Policy", [新經濟國策確立に關する特別委員會] chaired by none other than Shōda Kazue, Finance Minister during the Nishihara Loans. The committee announced on 19th July, 1930 that State Socialism was one of the options being considered.⁷⁴⁰ The success of the first Soviet Five Year Plan was getting much positive publicity in Japan.⁷⁴¹ By July 1931 the Seiyukai "Political Affairs Investigation Committee" under Yamamoto was confident enough to announce an "Industrial Five Year Plan" [産業五ヶ年計画] with its aim being the termination of the Minseitō's [民政黨] financial austerity policy,⁷⁴² import-substitution and the expansion of exports. [輸入防壓、輸出増進]⁷⁴³

⁷³⁷ Yamamoto, Jōtarō. "Keizai Kokusaku ni Tsuite." (On National Economic Policy) [經濟國策に就いて] In *Yamamoto Jōtarō Ronsaku*. (Strategic Opinions by Yamamoto Jōtarō) [山本条太郎論策] Vol. 1. Tokyo : Yamamoto Jōtarō Denki Hensankai, (Editorial Committee of Yamamoto Jōtarō's Biography) [山本条太郎翁傳記編纂會] 1939, 49-89.

⁷³⁸ Yamamoto, Jōtarō. "Keizai Kokusaku no Teishō". (Advocating a National Economic Policy) [經濟國策の提唱] In *Yamamoto Jōtarō Ronsaku*. (Strategic Opinions by Yamamoto Jōtarō) [山本条太郎論策] Vol. 1. Tokyo : Yamamoto Jōtarō Denki Hensankai, (Editorial Committee of Yamamoto Jōtarō's Biography) [山本条太郎翁傳記編纂會] 1939, 452-453.

⁷³⁹ Advertisement for *Keizai Kokusaku no Teishō*. Yomiuri Shimbun, 1930-08-25.

⁷⁴⁰ "State Socialism also under consideration". [国家社会主義も考慮] The Yomiuri Shimbun, 1930-07-19.

⁷⁴¹ Tezuka, Yūda. [手塚雄太] *Kingendai Nihon ni Okeru Seitō Shiji Kihan no Keisei to Henyō – 'Kensei Jōdō' kara 'Gojūgonen Taisei' e*, (The Formation of and Changes to the Support Base of Modern Japanese Political Parties – From 'The Normal Constitutional Path' to the '1955 System') [近現代日本における政党支持基盤の形成と変容 – '憲政常道' から '五十五年体制' へ] Tokyo : Minerva, 2017. 40.

⁷⁴² "Breaking up the Austerity Policy and Establishing a New National Economic Policy – News from the Seiyukai". [緊縮政策を打破して、新經濟国策の確立-政友会側の吹聴]. Asahi Shimbun, 1930-06-30

⁷⁴³ "The Seiyukai's Policies". [政友会の政策] Hōchi Shimbun, 1932-01-29.

The policy was featured on the Seiyukai's January 1932 election manifesto, with Inukai leading the party to landslide victory. Takahashi Korekiyo [高橋是清] was appointed Finance Minister. Yamamoto described the contents of his "Five Year Plan" in a series of speeches and pamphlets dated April 1931 to February 1932. The aim was to increase production capacity by 2.5 billion yen in ten years' time, requiring 1 billion yen of investment in production within the next five years and producing a 2.4 billion yen hike in consumption.⁷⁴⁴ It required reviving the 500 million yen budget for public works terminated by Hamaguchi Yukō's [濱口雄幸] Minseitō cabinet, and the addition of another 120 million yen to make up a total budget of a little more than 600 million yen for the Plan. The aim for many sectors was to meet anything ranging from 50-100% of domestic consumption with domestically produced goods. Investment was to be heavily inclined towards heavy industry, beginning with steel making – with the aim being to fulfill all consumption by home produced steel – plus fertiliser production and other heavy chemical industries; a 180 million yen investment would yield a 400 million yen increase in production. This is whilst agricultural projects, such as increasing grain production to fulfill 90% of domestic consumption,⁷⁴⁵ would receive 175 million. Yamamoto also defended his notion of the "Economisation of National Defence" [國防の經濟化] as being not a simple military reduction, but a policy that was aimed at institutional preparation during peacetime for the total mobilisation of men, skills, training, equipment and materials in a future war, whilst maintaining in peacetime only a skeletal army.⁷⁴⁶

In full Listian fashion, as part of the programme, an increase in customs tariffs was planned. The panel to discuss and implement this policy included none other than Kishi Nobusuke, [岸信介]⁷⁴⁷ at the time head of the Civil Works Division at the Ministry of Commerce and Industry. [商工省工政課長] The agricultural sector enthusiastically received the Plan, and in the spirit of agricultural corporatism, the leadership of the Imperial Agricultural Association [帝國農會] expected to dedicate themselves to overseeing the implementation of the Plan.⁷⁴⁸ However, with the invasion of Manchuria underway since 18th September, 1931 and the outbreak of the Battle of Shanghai on 28th January, 1932, Takahashi grew reluctant to allocate

⁷⁴⁴ Yamamoto, *Ronsaku*, 572.

⁷⁴⁵ Ibid., 569-570, 769.

⁷⁴⁶ Yamamoto, *Ronsaku*, 104-105.

⁷⁴⁷ Tezuka, *Seitō*, 39.

⁷⁴⁸ Ibid., 39.

the funds needed by the plan other than in piecemeal fashion and in insignificant amounts compared to what were initially promised. And then, on 15th May, 1932, Inukai was assassinated by rightwing naval officers due to his refusal to endorse the annexation of Manchuria. Immediately before his death Inukai had been planning to establish a “National Policy Council” [國策審議會] chaired by Yamamoto to see to the implementation of the Five Year Plan; the assassination put paid to the idea. The “Economisation of National Defence”, and the “Five Year Plan” slogan lost steam soon afterwards, drowned by popular calls for immediate financial relief to the countryside. What was instead put in place was a Three-Year Public Works Plan, later revised to being a Two Year Plan to speed up progress. Although it was no longer a “Five Year Plan”, Takahashi ended up spending much more than the 600 million yen originally stipulated, only that no specific production figures were set.⁷⁴⁹

Yamamoto was the last on a line of politicians stretching back to Nishihara who advocated a Controlled Economy chiefly on the grounds of socio-economic rather than military necessity. Despite this, Yamamoto’s ideas explicitly paved the way for the establishment of a total war mobilizational system. It is all the more ironic given that the programme was begun by a civilian government, and at that, the last party cabinet before 1945. Under Takahashi, the military budget increased from 28% in 1930 to 43% in 1935, and the combined deficit of the years 1932-1936 was 1.9 billion yen⁷⁵⁰ The idea of a “Five Year Plan” was not to be revived until 1936, the year Yamamoto passed away, when Kishi Nobusuke, now Deputy Minister of Industry in Manchukuo, implemented the first of its Industrial Development Five Year Plans. These events do not show per se that Nishihara inspired 1930s attempts at installing a planned economy in Japan or Manchukuo, but it does show how Takahashi’s financial expansionist policies, which gained him the name “Keynes before Keynes”,⁷⁵¹ had much to do with efforts at setting up a Soviet-inspired planned economy in Japan. It also shows that such policies from the 1930s were situated on a continuum that went through Nishihara’s 1918 manifesto, and beyond it, to Rathenau, Katsura, the ASSP, and the Meiji statist.

⁷⁴⁹ Ibid., 45.

⁷⁵⁰ Johnson, *MITI*, 119.

⁷⁵¹ Interestingly enough, John Maynard Keynes’ advocacies were not unknown in Japan before the publication and translation of his *General Theory*. In late January 1931 the Seiyukai MP Ōta Masataka [太田正孝] attacked the Minseitō cabinet’s austerity policy quoting Keynes’ 14th January, 1931 radio speech on the BBC, *The Problem of Unemployment or Saving and Spending*, where he argued that “the effect of saving is merely to [...] increase the number of the unemployed.” (Tezuka, *Seitō*, 30, quoting House of Commons Minutes [眾議院議事速記録] no.31, 21st March, 1931.)

Nishihara could be said to have left a legacy in Korea by kick-starting the creation of a colonial corporatist state. His involvement in the State Socialist movement of the 1920s brought him into the circle of Ugaki Kazushige, [宇垣一成] whom Nishihara served as he did for Terauchi Masatake. In 1927, and again in 1931, Ugaki was appointed Governor of Korea, and Nishihara Kamezō became his advisor. In 1930 Nishihara wrote a pamphlet on the state of the Korean peasantry, where he argued that priority of Korean policy was to be found in raising the income of peasants and in the equalisation of their living standards with peasants in Japan; the debate on the expansion of Korean political autonomy was therefore mistaken. For Nishihara, local financial cooperatives should play an important part in improving the rural economy.⁷⁵² In 1932 the Ugaki government in Korea started a “Rural Revitalisation Campaign” which set up and mobilised Councils for Rural Revitalisation “in every province, county and district to execute campaign programs at the local level, often by integrating already existing official and semi-official village organisations [and] aimed to improve consistency in guidance of rural regeneration”.⁷⁵³ This is whilst financial cooperatives, which had 685 branches covering a million members in 1933, helped matters such as resolving debt, and “extended a total of 52 million *won* to members as low-interest loans to obviate usury, benefitting almost a half-million peasant households.

Financial co-ops were also mobilized in the campaign to create owner-cultivators; they often purchased large tracts of land to distribute among several landless tenants and semi-tenants in exchange for long-term low-interest payments.”⁷⁵⁴ In addition to this was the *siksan'gye* [殖産會] which “often functioned as peasant co-ops for purchasing and marketing and became the main village-level organisation”.⁷⁵⁵ The movement’s main objective was to have each county select villages for rehabilitation, “each with 30 to 40 households. A survey was taken of the rural economy of all households in each selected village, and a detailed plan was devised to meet the main goals of economic rehabilitation. The survey was comprehensive, including information on demographics (age, education level, etc., of each member of every household); the extent of debt, savings, and food shortages;

⁷⁵² Nishihara, “Chōsen Jichiken”, 26-29.

⁷⁵³ Shin, Gi-Wook and Han Do Hyun, “Colonial Corporatism : The Rural Revitalisation Campaign, 1932-1940”. In *Colonial Modernity in Korea*, Gi-Wook Shin and Michael Robinson, eds. Cambridge (Massachusetts) and London : Harvard University Asia Centre, 1999. 86.

⁷⁵⁴ Ibid., 86.

⁷⁵⁵ Ibid., 86.

land productivity; crop production; fertiliser use; cash income; and expenses. Based on this survey, rehabilitation households were selected and given individualised five-year economic rehabilitation plans.”⁷⁵⁶ Shin & Han concludes that the Saemaul (New Village) Movement [新村運動] of 1971, initiated by Park Chung Hee, [朴正熙] was similar to Ugaki’s movement, and that given the colonial-era reforms, “it seems no historical coincidence that similar corporatist state-society relations emerged in both North and South Korea after 1945.”⁷⁵⁷ It has also been argued that –

“continuities between the late colonial and postliberation periods in terms of industrialisation were far stronger for North Korea than South Korea, particularly in the degree of state intervention in market mechanisms. The North Korean state, in short, followed the pattern established by the colonial regime of the 1930s and especially the wartime period much more closely than its southern counterpart.”⁷⁵⁸

This view has been confirmed in a remarkable paper by Kimura Mitsuhiro, who argued that the post-liberation North Korean state had actually revived many of the colonial-era agricultural and industrial policies, which were in turn influenced by the Soviet and Marxist-inspired economic policies adopted in Manchukuo during the 1930s-40s. “In introducing Soviet ideas on economic planning, the research division of the South Manchuria Railway (Mantetsu Chōsabu) [滿鐵調査部] played a leading role. This organisation was staffed by many pro-marxists who were familiar with Soviet literature. [...] A group of bureaucrats based mainly in the planning agency, often called *kakushin kanryo*, [革新官僚] the reformist bureaucrats, also studied methods of Soviet planning, as well as those of the Nazis.” Thus the Manchurian “Five-year plans for developing strategic industries” and the “Plan for mobilization of products” were “modelled upon the material balances in Soviet planning while the planning agency and the Ministry of Military Procurement performed the same role as the Soviet Gosplan.”⁷⁵⁹ Moreover, Manchukuo had achieved by 1941 total

⁷⁵⁶ Ibid., 84.

⁷⁵⁷ Ibid., 96.

⁷⁵⁸ Hwang, Kyung Moon. *Rationalizing Korea – The Rise of the Modern State, 1900-1945*. Oakland : University of California Press, 2016. 300, note 6, in reference to Gim Nang-nyeon, “Singminji Joseon gyeongjen ui jedojeok yusan”, Working Paper 2010-2, Naksungdae Institute of Economic Research Working Paper Series (2010).

⁷⁵⁹ Kimura, Mitsuhiro. “From Fascism to Communism : Continuity and Development of Collectivist Economic Policy in North Korea”. In *The Economic History Review, New Series*, vol. 52, no. 1, 1999 (5). 81.

agricultural collectivisation, first begun as an experiment by leftwing Mantetsu Chōsabu members in the Harbin region in 1937 and later made national policy.⁷⁶⁰

At the same time in Japan, the National Mobilisation Law [國家總動員法] was promulgated in May 1938; Tsurumi Masayoshi sees this as the final realisation of the State Socialist military mobilizational vision of the Terauchi-Shoda-Nishihara trio.⁷⁶¹ A Cabinet Planning Board [企畫院] was established in 1937 under Konoe Fumimaro, [近衛文麿] and provided refuge and employment to many left-wing personnel who drew inspiration from Soviet and Nazi German economic practices. Such leftist thinking culminated in the December 1940 “General Plan for the Establishment of the New Economic Structure” [新經濟體制確立要綱] which proposed the “semi-nationalisation” of private enterprises and the setting up of “economic bodies” [經濟團體] for major industries that would carry out and inform government industrial policy – basically a repeat of Rathenau’s model. The document, which was “infused with a sense of outrage that the capitalists were still making a profit while one war was going on and a bigger one was clearly coming”,⁷⁶² was bitterly resisted by right-wing politicians represented by Hiranuma Ki’ichirō [平沼騏一郎] and businessmen such as Kobayashi Ichizo [小林一三] who called it a work of “red thinking”. [赤化思想の産物] The result was several brutal purges and arrests of left-wing elements from 1939 onwards in both the Mantetsu Chōsabu and the Cabinet Planning Board, which was disbanded on 31st October, 1943. This did not prevent, however, the nationalisation of the Bank of Japan in 1942. By February 1945, it was ironically enough none other than Konoe who tried to persuade the Emperor to surrender to the Americans as soon as possible, since a Communist plot possibly existed at the highest ranks of the Japanese state. In the petition he wrote of “reformist movements” in the military elite, “a movement of ‘new bureaucrats’ that have jumped on the military bandwagon,” and “leftist elements that secretly attempt to pull the strings from behind the scenes.”⁷⁶³ Jeremy Yellen describes how during the war “The state extended control over industry through the promotion of mergers between massive corporations like Mitsui, Daiichi, Mitsubishi, and

⁷⁶⁰ Xie Xueshi, [解學詩] *Ping Mantie Diaochabu*. (On the Mantetsu Chōsabu) [評滿鐵調查部] Beijing: People’s Press, 2015, 476.

⁷⁶¹ Tsurumi, “Nihon Kinyu”, 165.

⁷⁶² Johnson, *MITI*, 150-151.

⁷⁶³ Gaimushō, [外務省] *Shūsen shiroku*, [終戰史錄] (Tokyo : Shinbun Gekkansha, 1952), 197. Quoted in Jeremy A. Yellen, “The Spectre of Revolution : Reconsidering Japan’s Decision to Surrender.” In *The International History Review*, 35 (1), 212.

Daihyaku”, and that, even though such control was never complete, “by 1943–4, it was plausible to see the acceleration of Tōjō [Hideki]’s [東條英機] plans for economic centralization and rationalization as the capstone of an effort to subvert the economic structure of the state from within.”⁷⁶⁴

Japan’s post-war recovery was to be heavily influenced by State Socialism, beginning with a late-1945 report written by a group of left-leaning economists with links to the bureaucracy. This *Basic Problems in the Reconstruction of the Japanese Economy* projected “a portrait of a mixed economy founded on heavy industry that at the same time provided new guarantees for public welfare.”⁷⁶⁵ Zen Keinosuke, head of the Economic Stabilization Board (which employed many former members of the Research Division of the South Manchuria Railway⁷⁶⁶) declared in a speech before the Diet in 1947 that “The failure of wartime controlled economy was that it was not based on science.”⁷⁶⁷ More science, and more planning, was to be the remedy for Japan according to these economists, who combined “prewar Marxist critiques with postwar modes of macroeconomic understanding [and] mobilized long-standing fears of ‘backwardness’ to argue for a growthist vision of national reformation”.⁷⁶⁸ In 1947 the Socialist Party cabinet under Katayama Tetsu [片山哲] announced the creation of Public Groups, or *Kōdan* [公團] to coordinate production and distribution in sectors ranging from coal, petroleum, minerals, raw materials, textiles, food, shipping, industrial reinvigoration, and even one on the regulation of prices.⁷⁶⁹ The American occupiers became wary of the tendency coming “too close to ‘Soviet-style democracy’ and ‘risked the danger of a return to an absolutist state’”, noting that only a fine line existed “between Soviet-style statism and New Deal-inspired interventionist policies”.⁷⁷⁰ After the announcement of financial austerity in the form of the 1949 “Dodge Line”, the Economic Stabilisation Board and the Public Groups were dismantled.

⁷⁶⁴ Ibid., 212.

⁷⁶⁵ O’Byrne, *Growth Idea*, 24.

⁷⁶⁶ Kobayashi, Hideo. [小林英夫] *Manshū to Jimintō*. (Manchuria and the Liberal Democratic Party) [満洲と自民党] Tokyo : Shinchosha, [新潮社] 2005, 91-116.

⁷⁶⁷ O’Byrne, *Growth Idea*, 39. Note 83.

⁷⁶⁸ Ibid., 6.

⁷⁶⁹ Uozumi, Hirohisa. [魚住弘久] “Kōkigyō to Kanryōsei (8) : Senjiki, Sengo Fukkōki no Eidan, Kōdan, Kōsha.” (Public Enterprises and the Bureaucracy (8) : Government Authorities, Public Groups and Public Corporations during Wartime and the Postwar Recovery Period) [公企業と官僚制 (8) : 戦時期・戦後復興期の営団・公団・公社] In *Hokkaido Daigaku Hōgaku Ronshū*. [北大法学論集], 57(3), 126.

⁷⁷⁰ Ibid., 35-36.

From the 1950s onwards, Japanese economists such as Ōuchi Tsutomu [大内力], following in the footsteps of the East German economist Kurt Zieschang, noted that Japan as well as other capitalist states have entered a phase of State Monopoly Capitalism – which rings true at least in terms of the subjective intentions of its economic bureaucracy. As Tessa Morris-Suzuki put it, they argued that “this new stage was characterised by the concentration of economic power in the hands of a small number of giant corporations [and] by the increased role of the state in ensuring the survival of the economic system – through demand management, welfare policies, various forms of assistance to industry, and so on.”⁷⁷¹ Ōuchi argued that the development of State Monopoly Capitalism in Japan had started in the 1930s, but it was the American occupiers whom, “by importing the spirit of the New Deal [...] had been unwitting agents in the restructuring and strengthening of Japanese state monopoly capitalism.” [國家獨占資本主義] Incidentally the New Deal itself had much to do with the residual influence of mobilizational planning during the First World War.⁷⁷² The state came to take the lead with Ikeda Hayato’s Income Doubling Plan, which was passed in December 1960, and “projected average economic growth rates of over 7 percent every year for the next ten years and committed the government to promoting that outcome.”⁷⁷³ As Kōzō Yamamura describes –

“As declared in the policy of The Ministry of International Trade and Industry (M.I.T.I.) in 1957: No doubt, the key for the growth of our economy is in the promotion of our exports. It then goes without saying that not only must the structure, which is conducive to excessive competition, be eliminated, but also the basic policy to promote exports lies in our concentrated efforts to cultivate our industry’s ability to compete in international markets. In order to rationalize and to enlarge the scale of production, cooperation among firms is necessary, and this must be positively encouraged.”⁷⁷⁴

⁷⁷¹ Morris-Suzuki, *Japanese Economic Thought*, 122.

⁷⁷² Ibid., 124. “The same model, and many of the same personnel were to be called upon in the 1930s when Reconstruction Finance Corporation was created. Herbert Hoover, who created the RFC, had been food czar during the American experiment in war planning. Bernard Baruch was his first choice as RFC’s head and although Baruch turned down this offer, his former aide, Eugene Meyer, ended up with the job. Meyer had been managing director of the War Finance Corporation, which was the main surviving institutional remnant of the WIB”. (Lavoie, *National Economic Planning*, 226)

⁷⁷³ O’Byrne, *The Growth Idea*, 4.

⁷⁷⁴ M.I.T.I., *Sangyo Gorika Hakusho* [The White Paper on Industry Rationalization] (Tokyo, 1957), 293. Quoted in Kōzō Yamamura, “Growth vs. Economic Democracy in Japan – 1945-1965”. In *The Journal of Asian Studies*, 25 (4) (Aug, 1966), 714.

Yamamura then describes a MITI practice known as “by-passism” – the by-passing of the Anti-Monopoly Act to create “administrative cartels”, which numbered 500 in 1961 and doubled to over a thousand by 1965. “A series of laws were enacted from 1959 to 1960, legalizing output restriction, price-fixing, and other intricate intra-industry cartels to ‘adjust supply and demand.’ ”⁷⁷⁵ Morris-Suzuki writes that this allows Ōuchi “to provide an explanation for the strong threads of similiarity linking pre-war and post-war economic structures [also] delineated by Western writers on Japan such as Chalmers Johnson.”⁷⁷⁶ Given Johnson’s description of MITI practices such as placing retired bureaucrats in corporate directors’ boards (or *amakudari*) and “Administrative Guidance” – in other words, direct state intervention in production and investment decisions – one can conclude that what Johnson referred to as the developmental state, or what journalists called “Japan Inc.”, was but another name for the State Capitalist Trust as Bukharin described of the Rathenau system in 1917. The peak of such attempts by post-war economic bureaucrats to revive wartime, State Socialist-inspired industrial rationalisation, came in 1962 when MITI bureaucrats led by Sahashi Shigeru [佐橋滋] drafted *A Bill to Promote International Competitive Ability of Specified Industries*. As Yamamura explains, “The basic thinking of the bill is to introduce a mixed economic system of a unique type to meet the Japanese problems [...] More specifically, the bill, if enacted, will actively promote concentration of production and mergers, suppressing excessive competition.”⁷⁷⁷ This was followed by the 1963 *Special Measures Law for the Promotion of Designated Industries*. [特定産業振興臨時措置法案] Johnson describes how the measures proposed were the same as those –

“Kishi had discovered during the 1930s – cartels, enforced mergers, pressure on medium and smaller enterprises, converting some businesses to other lines of activity, something like the old ‘enterprise readjustment’ movement but under a different name. Sahashi’s new terms for these old activities were public-private cooperation [官民協調]; consolidation of the industrial order [産業体制整備]; and structural finance [体制金融], meaning government loans and tax breaks to encourage measures.”⁷⁷⁸

⁷⁷⁵ Ibid., 715.

⁷⁷⁶ Morris-Suzuki, *Japanese Economic Thought*, 124.

⁷⁷⁷ Kodo Rikuzo, “A Proposal from the Industry,” in *Sangyo Taiseino Saihensei* [The Reorganization of Industrial Structure], Shinjusha, ed. (Tokyo, 1963), 116. Quoted in Yamamura, “Economic Democracy”, 715.

⁷⁷⁸ Johnson, *MITI*, 256.

The Saint-Simonian tendency in State Socialism to make grandiose, overarching industrial plans, as begun by the development programmes of the French Second Empire and the 1878 “Plan Freycinet”, and as seen in Nishihara’s proposals and Sun Yat-sen’s *International Development of China*, would be reflected strongly in Tanaka Kakuei’s *Plan for the Reform of the Japanese Isles*. The actual author of this manifesto was none other than Konaga Keiichi, [小長啟一] a protégé of Sahashi Shigeru’s. “The economic democracy envisioned by the Zaibatsu Mission of 1947 no longer exists in the industrial markets of Japan”,⁷⁷⁹ laments Yamamura in 1966. To demonstrate the extent of the State Monopoly Capitalist tendency in the MITI mindset, and somehow echoing Lenin’s formula that “state-monopoly capitalism is a complete material preparation for socialism”, Yamamura writes –

“A simple and direct extension of M.I.T.I. arguments is to invoke the question : Why not a nationalization of monopolist firms to give them the maximum economy of scale and supply them with capital? This question which, in fact, is raised by Socialists and Communists, should suggest a definite limit to the type of reasoning currently enjoyed by M.I.T.I. officials.”⁷⁸⁰

In South Korea, following the devastation of the Korean War and slow recovery after 1953, mired by corruption and embezzlement of American aid under President Rhee Syng-man, [李承晩] the military-led “developmental dictatorship” under the junta led by the former Manchukuo Army Academy and Tokyo Military Academy cadet Park Chung-hee [朴正熙] began with currency reform which set the old and new Korean won at 10:1. This was followed by the implementation of a series of Five-Year Plans, the first of which was announced in January 1962 by the Economic Planning Board. From then on until 1966, a Statist-mobilisational approach was taken whereby 72.2% of capital came from domestic sources and just 27.8% came from overseas; of that, the government’s share was 55.6% and the private sector was responsible for 44.4%. Difficulties in mobilising domestic capital were soon encountered, in addition to a sharp drop of the foreign exchange earning rate during the first year of the plan, from 82.2% in 1962 to 65.1% in 1963; this required a series of supplementary measures on financial stabilisation and the adjustment of the annual

⁷⁷⁹ Yamamura, “Economic Democracy”, 716.

⁷⁸⁰ Ibid., 728.

growth target to 5%, in addition to giving the United States a role in Korean development by establishing a Korea-US Joint Economic Cooperation Committee.⁷⁸¹

Park's import-substitution plans was however both un-20th Century American, and distinctively 19th Century American at the same time, for it harks back to the protectionism of Mathew Carey; and just like the principles of a state-run economy envisioned by Constantin Pecqueur, Park's government "adopted the strategy of controlling the investment plans of chemical fibre manufacturers based on demand forecasts and securing export competitiveness by realizing economies of scale."⁷⁸² Beginning with textiles and fibres, South Korea moved onto heavy chemical industries after 1973, and from then on until 1978 its economy grew at 11% per annum with heavy industry accounting for 70% of total investment in manufacturing, whilst it became one of the big four debtors in the world behind Brazil and Mexico.⁷⁸³ Per capita output in South Korea finally overtook that of North Korea in around 1974-76.⁷⁸⁴ Park's government "set financial prices at an artificial low" to subsidise various industries and its financial system has been described as "illiberal, undemocratic, and statist [with] Every bank in the nation [...] owned and controlled by the state; bankers were bureaucrats and not entrepreneurs; they thought in terms of GNP and not profit, and they loaned to those favoured by the state."⁷⁸⁵ In essence, South Korea's industrial finance system under Park Chung-hee was everything that the Saint-Simonians, from Pecqueur to the Pereires, would have wanted; and Park in fact drew inspiration from his memories of "the Manchurian model of military-backed forced-paced industrialisation",⁷⁸⁶ a point that Bruce Cumings and Nicholas Eberstadt agree on –

"Throughout the expansion of the 1930s and the Pacific war, the implementation of war-mobilizational policies was always more moderate in Japan itself than in its possessions and quasi-colonies – a distinction attributable to many factors, not the least of these being that the Japanese military was freer to promote its vision of 'development planning' in

⁷⁸¹ Lee, "Industrial Policy", in Lee, ed. *Developmental Dictatorship*, 84-86, 97.

⁷⁸² Ibid., 97.

⁷⁸³ Cumings, Bruce. *Korea's Place in the Sun: A Modern History*. New York and London: W. W. Norton & Co., 1997. 316.

⁷⁸⁴ Eberstadt, Nicholas. *Policy and Economic Performance in Divided Korea during the Cold War Era: 1945-91*. Washington: AEI Press, 2010. 32. The National Unification Board of South Korea puts the cross-over point at 1974 whilst the CIA puts it at around 1976.

⁷⁸⁵ Woo, Jung-en. *Race to the Swift: State and Finance in the Industrialization of Korea*. New York: Columbia University Press, 1991, 159. Quoted in Cumings, *Korea's Place in the Sun*, 317.

⁷⁸⁶ Ibid., 311.

settings inhabited by non-Japanese populations. Park Chung-hee was thus not only exposed in the classroom and the dormitory to economic development. He also witnessed it in practice in Manchuria: first during the years in the academy and then later as a lieutenant in the Japanese Kwangtung Army. For a variety of readily understandable reasons, neither Park nor his South Korean critics chose to dwell on this aspect of his personal history. In retrospect, however, there can be little doubt that it made a lasting impression.”⁷⁸⁷

As we have seen, Stalinist and Nazi influences were both present in the rapid industrialisation of Manchuria and wartime Japanese planning. The Greater East Asia Co-Prosperity Sphere was planned to be something beyond “a simple, exploitative structure. Instead, it would be a planned economy [and] only a planned economy could meet the needs of a region as diverse as Asia.”⁷⁸⁸ The story thus comes to a full circle when one recalls that it was Walther Rathenau’s State Socialism that had inspired Soviet (and Nazi) methods of industrialisation. As Don Lavoie argues, Stalin’s version of economic planning is “a rigidification and militarisation of the economy on the Ludendorff model [...] Stalinism is not, as Leninism is, unsuccessful Marxism; it is successful Ludendorffism : a permanent war economy in peacetime.”⁷⁸⁹ The credit should really have gone, not to Erich Ludendorff, but to Rathenau, and indeed Ludendorff should be held jointly-accountable for the chaotic Hindenburg Programme – the first instance of failure for state economic planning.⁷⁹⁰

On the other hand, the net result of Stalinist economic planning was not only to place the country in a permanent state of wartime mobilisation, but to use such mobilizational tactics to produce an effective State Capitalist Trust which could emerge victorious in both peacetime and wartime international competition – in other words, it was the fulfilment of what Yang Tu would have called an “economic warfare state”. From Germany, to the Soviet Union, to Japan, the two Koreas and Communist China – the last being also under heavy influence from Manchurian

⁷⁸⁷ Eberstadt, *Divided Korea*, 101-102.

⁷⁸⁸ Yellen, *The Greater East Asia Co-Prosperity Sphere*, 87.

⁷⁸⁹ Lavoie, *National Economic Planning*, 229.

⁷⁹⁰ Ludendorff’s famed 1935 pamphlet, *The Total War*, actually blames Rathenau for Germany’s failure; this is despite the fact that Rathenau had been on good terms with Ludendorff and was of help to the latter during the KRA era. Ludendorff accuses Rathenau of aiming to take over totally the German economy, which was “already under the control of Jewish-Roman [Catholic] capital before the World War”, and that the KRA system “deprived individuals of their passion for work and sense of responsibility and obstructed the development of the economy.” Ludendorff, *The Total War*, 66.

experiences and institutions – “as long as industrial countries endeavor to plan their economies the influence of Rathenau’s ideas will continue to be felt.”⁷⁹¹ Given how much of the staff of the Mantetsu Chōsabu and the Cabinet Planning Board ended up working in post-war Japanese government institutions,⁷⁹² one could say that what had emerged in the offices of the KRA in Berlin, in terms of the mode of organisation of State Socialism (or State Capitalism) – which Suetake defines as the planned and coordinated maximalisation of the economic potential of manpower, materials and institutions in a capitalist framework, was already dominant in Asia by 1941, and emerged totally triumphant by 1950. The revolution from above that Tanaka and other MITI hardliners had in mind was ultimately not forthcoming, but just like how “the Soviet-trained economy of the [German Democratic Republic], moving from one five-year plan to the next, can be conceived of as a late effect of Rathenau’s projects”,⁷⁹³ Japan, Korea and China during and after WWII could also be viewed in such light. Nishihara should thus be remembered less as the implementer in any real sense of this system, and more as a prophet of things to come – or more precisely, the Prometheus who first brought to Asia Rathenau’s technocratic economic planning mindset – something which Russia, Japan and South Korea progressively abandoned by the 1990s, but which is still very much alive in China, Vietnam and North Korea today.

⁷⁹¹ Henderson, “Walther Rathenau”, 108. Nishihara’s, or rather, Rathenau’s War Corporation model would presage the policy of centralised purchase and retail [統購統銷] as practised in Communist China after 1953.

⁷⁹² O’Brian, *The Growth Idea*, 20.

⁷⁹³ Krajewski, *World Projects*, 182.

5 Conclusions

Iriye Akira [入江昭] observed that it wasn't until after the First World War when "the assumptions and aspirations of a new world order were taking hold of Japanese consciousness".⁷⁹⁴ Kayahara Kazan, [茅原華山] a State Socialist, wrote that "Japanese expansion overseas should take a peaceful, industrial form [...] that an economic foreign policy would in fact pay and would not be incompatible with other objectives such as security, prestige and national identity."⁷⁹⁵ In this sense, Nishihara's Project for an East Asian Economic League was ahead of its time; this autarkic vision had been fuelled by a bureaucratically-driven developmentalist mindset, known to its proponents as State Socialism and to its detractors State Capitalism. Of course, aside from the rational calculation of the benefits that economic policies would have delivered, there also existed an intricate, parallel system of kickbacks, rebates and commissions which up to a certain extent informed the politicians of the desirability of their financial deals with foreign nations and local capitalists.⁷⁹⁶ It is important to note where Nishihara's funds have been diverted from their original uses, they were sometimes channelled into other economic concerns, for example into enterprises owned by Chinese politicians – the Lung-yen Iron Mine Company and the Gold City Bank being prominent examples – and this unwittingly, but ultimately did serve an objective economic good.

The Pan-Asianism of Nishihara Kamezō also fundamentally diverged from its usual stereotype as a samurai, culturalist world view, one which masqueraded an ambition to somehow conquer the continent. Instead of having economic cooperation as an afterthought, as was usually the case, Nishihara's unique formula of a materialistically, rather than culturally-based Pan-Asianism was inherently economically-rational. Nishihara saw, as many Japanese bureaucrats came to realise only after the Second World War, that "a range of what had formerly been considered domestic issues – employment and national welfare levels, for example – were becoming [...] international concerns. It could now be expected that extranational influences would be brought directly to bear on the management of

⁷⁹⁴ Iriye, "The Failure of Economic Expansion". In *Japan in Crisis*. 240.

⁷⁹⁵ Ibid, 238-239.

⁷⁹⁶ My observations after reading the files of the Gold City Bank at the Tianjin Municipal Archives, which show extensive financial irregularities including the use of shell corporations for financial transactions.

domestic economies.”⁷⁹⁷ Nishihara’s economic Pan-Asianism and his advocacies for internal reform, reflect a sort of developmentalism that became normative with the post-war rise of third-world-concerned developmental economists such as Gunnar Myrdal. His 1957 speech, *Economic Nationalism and Internationalism*, was an early attempt by a western economist to define a mindset that Nishihara and even Kayahara had in effect possessed in the 1910s. Myrdal, and Nishihara, proceeded from the basic question of what a richer country could do for its less privileged neighbours, and as a result shared similar assumptions; of particular note is how they agreed on the need to reshape opinion in the richer countries in order to create the conditions for the reshaping of institutions in these states, so that they would be better geared towards investing in underdeveloped ones – investment which became the basis of prosperity and security for the developed world –

“the richer countries could afford to give the under-developed countries their chance to see their demands for economic development and greater economic quality realised. This is so if **rational considerations** were allowed to determine the issue. It could be done without impoverishing the richer countries. In fact, they would build firmer the basis not only for their political security but also for their further economic progress.”⁷⁹⁸

Myrdal agrees that significant internal reform of the developed country would be necessary before it is in a position to provide developmental aid or investment, in a break from existing, extortionate modes – “The richer countries would then not have to give capital aid in larger quantities but in more regular forms. Much more important would be *that they re-shaped their regular commercial and financial policies to agree better with the development interests of the poorer countries*. It is my conviction that very broadly such reforms are in the common interest of us all – in the interest of the richer countries as well as of the poorer ones.”⁷⁹⁹ And here Myrdal practically re-phrased Nishihara’s calculation that investment in, rather than the division of China, provides better benefits for Japan, and leads to an actively-maintained harmony –

“if it could be demonstrated how in a “created harmony”, emanating from a **purposive sequence** of international compromise agreements, we all have

⁷⁹⁷ Ibid., 27.

⁷⁹⁸ Myrdal, “Economic Nationalism and Internationalism”, 48. Emphases mine.

⁷⁹⁹ Ibid., 48. Emphases mine.

a true interest in each other's advance, the political basis would be laid for concerted policy actions in the international field."⁸⁰⁰

Myrdal notes, as Nishihara did, the limits to state autonomy, which must be expanded by co-opting popular attitudes in a proper direction conducive to cooperation; in a sense his is the vision of a policy-maker who would, rather than slavishly appease diplomatic populism, seek to counter and guide it; the inevitable logic is that, proceeding from state intervention in economics, some degree of state intervention, perhaps in as subtle a way as possible, would be required in terms of popular opinion; and indeed this is reflective of the 1950s approach to Cold War public relations –

“Popular attitudes in all countries but particularly in the richer ones would need to be **altered** so as to support not only a larger and steadier flow of capital aid to the under-developed countries, but also radical changes in the richer countries' ways of doing business or not doing business – with each other and, in particular, with the poorer countries.”⁸⁰¹

Nishihara's mode of thinking is in many ways more akin to post-war mainstream politics, as when he talks in terms of 'productivity' [生産能率] and 'raising citizen's incomes', [國民所得増加] terminology which became typical of Japanese political rhetoric in the 1950s and 60s, particularly under Ikeda Hayato. [池田勇人] Scott O'Bryan argues that “aggregative empirical methodologies reshaped postwar social science [and] bureaucrats and scholars transformed GNP from an obscure academic exercise into one of the key conceptual instruments by which macroeconomic growth was imagined and pursued.”⁸⁰² But it was really Nishihara, with his 200 yen per capita target, who was the trailblazer of GNP-based economic thinking, which O'Bryan sees as the very essence of post-war economic thinking in Japan, and which ultimately spread to Korea in the 1960s and China in the 1980s.

The Nishihara episode, and its ultimately abortive nature, left a rich but varied institutional and ideological legacy, and very complicated geopolitical consequences. In around 1912, China and Japan entered a 'transitional period' in internal governance and diplomacy, amidst the impasse of Imperialism and the decline of Imperial prestige at home. The European conflict was closely coupled to the

⁸⁰⁰ Ibid., 50. Emphases mine.

⁸⁰¹ Ibid., 50. Emphases mine.

⁸⁰² O'Bryan, *The Growth Idea*, 5.

emergence of Bolshevism, whilst it exacerbated the struggle within China and Japan for representative government and social reform. The formation of ‘transcendental’ non-partisan or single-party regimes, and the rise of State Socialist economic thinking, served both to co-opt such trends and to facilitate wartime mobilisation; this in turn contributed to efforts to increase state autonomy and directive power and bureaucratic expansion. Nishihara’s episode paved the way to a “political combination”, effective to different degrees in Japan, China and the Koreas later on in the 20th century, of the developmental state under a single dominant and long-governing party with an authoritarian-bureaucratic guided economy, supervised by a corpus of specialist-planners and state managers – what Samir Amin calls the “state bourgeoisie”.⁸⁰³ In China’s case the Kuomintang and Communist-era technocratic corpus exhibited clear descent from Nishihara-era personnel centred on Ting Ven-kiang and Wong Wen-hao; the State Socialist/State Capitalist ambitions of China’s early Republican leaders finally blossomed after 1949. This is whilst in Japan, the descent of MITI’s staff and institutions from their origins in the Ministry of Commerce and Industry, the Cabinet Planning Board and Manchukuo, and the embedding of bureaucratic personnel within the private sector via *amakudari* were firmly established phenomena; the build-up and continuity of statist mobilisational methods continued well into the post-war phase of high-speed growth. In the Koreas too, experiences absorbed from Soviet and Nazi practices experimented in Manchukuo or in Ugaki Kazushige’s Colonial Korea were continued almost intact by the northern Kim Il-sung regime, and after a brief hiatus were re-enforced and expanded in the south by Park Chung-hee’s military regime, ultimately creating the so-called “Miracle on the Han River”. [漢江奇蹟]

Such a political combination was at first difficult to put in place, with the setting up of the developmental-authoritarian system immediately forcing anti-establishmentarian revolt; this is partly responsible for the fall of Terauchi amidst nationwide rioting and a long civil war in China. In South Korea this resulted in decades of unrest leading to democratisation in the 1990s. In Japan, anti-establishmentarian social and student movements reached its height after 1960 and continued to be active through to the mid-1970s. For Japan, China and the Koreas, the implementation of developmentalism initially surpassed the actual political capacity of these governments, and state capacity had to be increased with the goal

⁸⁰³ Evans, *Dependent Development*, 46.

being the implementation of a developmental system. As Beaseley judged, Japan in 1917-8 could not offer the sort of assistance that Nishihara promised, and Nishihara's proposed industrial rationalisation did not benefit from the extensive industrial cartelisation that preceded Rathenau's rationalisation reforms. This is whilst for China, the ongoing civil conflict paralysed the economic endeavours of its leaders, however vigilant and visionary they were – as we have seen notably in the case of Liang Ch'i-ch'ao. Slow industrial development was in turn partly responsible for the failure of the Peking government to unify the country militarily, at a time when mobilisation should have been predicated upon a strong industrial base.

How then, should we regard military leaders like Terauchi Masatake and Tuan Ch'i-jui? Were they no more than reactionary figures? A good point of comparison is with the military governing elite of "Dependent Developmental" states like Brazil in the 1960s-70s, as Peter Evans describes⁸⁰⁴ –

"Military rule is [...] an apt choice because the dependent capitalist state, despite its disavowal of popular mobilisation, is likely to be nationalist. Like repression, nationalism is useful both in promoting accumulation and in maintaining order. Nationalism provides the ideological basis for giving priority to local accumulation and is therefore useful in arguments with multinationals. It provides a legitimisation for the activities of the state bourgeoisie in the eyes of private capital. It is also the only basis on which the state can claim common ground with the mass of the population, especially as "developmentalist" promises of future rewards begin to lose their credence."

Nishihara obviously never suggested a workable accommodation with rising Chinese and Japanese nationalism, and his Chinese partners were too slow on the uptake with regards to rising nationalist and anti-Japanese sentiment after the Twenty-one Demands. Nor did Nishihara make a genuine attempt to connect with the general populace either in China and in Japan, to give them a vision – a taste of those developmentalist promises – apart from issuing his obscurely-written manifesto which fell like a rock to the bottom, producing few ripples in the process. This made it impossible for military rule to be legitimised in Japan and China and caused further difficulty in implementing a developmental authoritarian mode of

⁸⁰⁴ Ibid., 49.

economic governance – one that would have delivered material liberty to its citizens. On the other hand, had Nishihara, Terauchi and Tuan succeeded, China would have become a largely Japanese-dependent developmental state, conditioned by its relation to the direction of the Japanese economy, and condemned to maintaining an authoritarian political system; the Anfu Club regime, with its conservative composition given the higher ratio of members with Mandarin-literati backgrounds, would have to be transformed into an industrial-embracing party that would either displace or co-opt the national bourgeoisie, and to be the embryo of a totalitarian state that offers support to mobilisation and the State Capitalist Trust –

“The contradictions of dependent development are reflected in the paradoxical nature of the dependent capitalist state. It is a nationalist state whose strategy of accumulation is conditioned by its relation to the international economy and depends in the first instance on the cooperation of the multinational corporation. It is a state whose repressive protection of the interests of the dominant class is blatant, yet it excludes most of the national bourgeoisie from political participation just as it excludes the mass of the population. Nonetheless, despite or perhaps because of the contradictions it contains, the state has been a key instrument in fostering dependent development.”⁸⁰⁵

Was this necessarily a bad outcome for Japan and China? Dependent Development, as Peter Evans argues, is not a permanent situation, and provided that the Chinese state and national bourgeoisie maintained control over the resources and industrial facilities that were cooperating commercially with Japan, there would be hope that China could realistically lift itself from peripheral to semi-peripheral status – as in the case of Brazilian plantation companies buying up coffee processing concerns in the US; indeed this was what Nishihara reassured his Japanese readers not to be fearful of. Evans notes that in Dependent Developmental countries where strong nationalist political direction exists, there is usually pressure on foreign capital to collaborate with elite local capital engaged in producing manufactured or semimanufactured goods; ultimately, purchases of foreign capital goods, e.g. machinery would be seen by foreign enterprises as being more profitable than

⁸⁰⁵ Ibid., 50.

purhcases of manufactured goods.⁸⁰⁶ This was the best deal that China could have had under contemporary circumstances, but it was predicated upon China becoming an able nation state that could set the terms of cooperation.

On the other hand, Nishihara reminded Hara Takashi soon after the latter's assumption of premiership that Japan was wholly dependent on Chinese raw materials and markets, and practically has no choice but to maintain close and friendly relations with China and to integrate itself with the continent.⁸⁰⁷ This could be said to be Japan's misfortune; many years later, finding itself sealed off from the continent by the Cold War, Japan would have to find a substitute in southeast Asia. To answer Gellner's question as posed in the introduction, Japan as a nation state was never viable on its own as a unit of economic development; either it collaborated with the continental nations to obtain the resources and markets in a peaceful fashion, or it must, as many in Japan foresaw, obtain them by force, even if it had to result in the suffering of the Chinese. Under Terauchi Masatake, a realistically-minded military leader who understood the costs of war, there was genuine hope that the latter, destructive force could be held in check whilst enough political determination could be afforded to pursue the former, peaceful and mutualistic approach. This would be expensive in the short-term and was bound to arouse discontent in the west as well as amongst politicians like Hara, who thought of themselves as more practical and "international".

Yet Terauchi never managed to rein in the likes of Tanaka Gi'ichi who sabotaged Nishihara's rapprochement right from the start. The fall of Terauchi and Tuan jeopardised the capacity of both countries to deal effectively with their diplomatic disputes, notably the Shantung Question; in the years leading to the Washington Conference the drive for popular representation became bonded with hard-line foreign policy. Failure to cooperate on equal terms when the opportunity came in the 1910s, would have disastrous consequences for both countries during much of the 20th century. The reversion to "Coordinated Diplomacy" by Hara Takashi's government, which cut its aid to China for fear of antagonising the west, left Japan with few other means of managing developments on the continent, save for military

⁸⁰⁶ Ibid., 304, 316. Should Japanese investment give rise to a large state-run industrial sector in China, this would be conducive to the formation of an industrial proletariat who would see the state, by then directly involved in capitalist production, in its "pristine nakedness"; this would increase the prospects of socialist revolution.

⁸⁰⁷ Nishihara, *Jiden*, 211.

ones which Tanaka Gi'ichi desperately employed in the late 1920s. Tanaka's successors, failing to see that such bluntness would be rejected even more violently by the west, deepened their mistake in China to international horror, and this slippery slope led to full scale Pacific War by 1941. Nishihara's vision represented a viable alternative which the west would have been capable, in good time, of coming to terms with. However flawed and futile, Nishihara's exploration of a non-aggressive path of Pan-Asian development, and to come up with an alternative to vicious competition between mutually-exclusive nation states, deserves to be rediscovered. It shows that developmentalism was not necessarily how it has been defined after WWII – a project contained within national borders – that there is a rich but obscured history in Asia of joint-efforts over regional economic cooperation, and that the State Socialist/State Capitalist developmental-authoritarianism phase was both necessary and not as monstrous as it would now seem.

Nishihara's case poses a fundamental challenge to the historiography of interwar Japanese Reformism, or *Kakushinron* [革新論] which centres on extra-institutional movements in universities or amongst journalists and marginal politicians, as described in the book by Itō Takashi; [伊藤隆]⁸⁰⁸ this is despite Nishihara qualifying in every way to be seen as part of this extra-institutional reformist movement due to his friendship with leading reformist organisers such as Nakano Seigō and Nagajima Ryūji. Yet unlike the better-known State Socialists such as Ōkawa Shūmei, Kita Ikki or Takabatake Motoyuki, who were politically active outside, and to some extent against the establishment, Nishihara Kamezō was already at the top, within the establishment. Had Terauchi stayed in power for longer, there was a genuine chance that he and Nishihara could have continued tendencies started by Katsura Tarō, and made State Socialism and its radical reformist vision the blueprint of a new institutional and ideological state apparatus for Japan.

The case of Nishihara also challenges the usual view that reform bureaucrats had obtained their source of inspiration from Total War Theory, or Soviet and Nazi practices. The origins of the term Controlled Economy or *Tōsei Keizai* [統制經濟] has usually been attributed to the right-wing economist Hijikata Seibi [土方成美] dating from the 1920s, or the right-wing philosopher Kanokogi Kazunobu, [鹿子木眞信] one

⁸⁰⁸ Itō, Takashi. [伊藤隆] Taishōki 'Kakushin' Ha no Seiritsu. (The Formation of the 'Reformist' Faction during the Taishō Era) [大正期「革新」派の成立] Tokyo : Hanawashobō, [塙書房] 1978/2005.

of the mentors of the Manchukuo reform bureaucrats and later Prime Minister of Japan, Kishi Nobusuke. [岸信介] Nishihara precedes them by almost one decade with his pleas for a controlled economy. (*tosei-arū keizai*) As this thesis has shown, the origins of statist, collectivist, industrialising reformism in Japan runs deep as an undercurrent that has existed since the mid-Meiji period with France⁸⁰⁹ and Bismarckian Germany serving as the main inspiration. A link could be established, via Nishihara, to the statist economic bureaucrats of the 1880s-90s – Tomita Tetsunosuke, Ōshima Sadamasu and Kōmuchi Tomotsune – and their struggle against the laissez-faire and privatisation policies of Matsukata Masayoshi. Between the reformism of the Meiji-era and the late-Taisho era, lies the influences of German Historical School economists Gustav von Schmoller and Adolph Wagner upon the Japanese Social Policy School (ie. the ASSP). The advocacies of Nishihara Kamezō were the tip of an iceberg of State Socialist thought in bureaucratic circles. State Socialism was a fact in Japanese politics during the last decade of Meiji's reign, and the ASSP-Right's 'enlightened bureaucrats', Soeda Ju'ichi and Tajiri Inajirō, preached the necessity of further social reforms. Nishihara was no less influenced by these tendencies than by the WWI German mobilizational methods invented by Walther Rathenau. This is whilst the alternative Pan-Asianist stream that Nishihara represented was a peaceful, constructive undercurrent which depended, tragically, on statist (and thus, under contemporary circumstances, authoritarian) premises. Nishihara shows that such statist thinking needed not result in war and annihilation. Pan-Asianism, and indeed the Meiji model of Japanese development, could have on this occasion diverged from its militaristic conclusion.

⁸⁰⁹ Kashima Shigeru's biography of Shibusawa Eiichi is based on the argument that Shibusawa had been fundamentally influenced by the Saint-Simonian achievements that he saw in France as a member of a Bakufu delegation in 1867. Yet Kashima has not provided conclusive evidence of such influence. (See Kashima, Shigeru. [鹿島茂] Riben Shangye zhi Fu Seze Rongyi Zhuan (A Biography of Shibusawa Eiichi, Father of Japanese Commerce) [日本商業之父澁澤榮一傳] Wang He [王鶴] and Chi Miao, [池淼] trans. Hangzhou: Zhejiang University Press, 2014.) On the other hand, the Ministry of Agriculture and Commerce bureaucrat Maeda Masana [前田正名] studied agricultural economics for many years during the 1870s in France, and would not doubt have been exposed to Saint-Simonianism. Upon returning to Japan Maeda issued two important works on economic planning, the 1879 *Aspects of Recommendations on Direct Trade* [直接貿易意見一斑] and 1884 *Recommendations on the Reinvigoration of Industry* [興業意見]; in the latter document, which was composed of 30 volumes of data collected of Japan's agriculture and industry, Maeda argued that the priority should have been to promote and reorganise Japan's cottage handicrafts industry and to boost exports, before returning to focusing on heavy industry. Maeda's recommendations were at odds with the heavy industry line taken by Yamagata and Matsukata, and fell on deaf ears; but Maeda became a major influence upon Takahashi Korekiyo, [高橋是清] who became Finance Minister in the 1930s. See Smethurst, *Takahashi Korekiyo*.

It would therefore be difficult to call Nishihara's State Socialism a purely right-wing ideology, even when acknowledging its establishmentarian credentials; yet it was left-wing only in the sense that Saint-Simonianism, which effectively became capitalist, could also be seen as left-wing. State Socialism, as it first appeared in Germany under Bismarck, and as employed in places like North Korea after 1945, was a form of governance that blended concessions to social and labour demands with a more efficient system of exploitation of manpower and resources. It was not an anti-establishmentarian strain of thought, although the implementation of State Socialism would have required revolutionary changes to political and economic institutions. Nishihara's proposals for domestic change, which stopped short of full totalitarian control, implied a logic of positive liberty to free individuals socially and materially from the alienation, waste and futility of *laissez-faire*. Yet the increased state intervention implied by Nishihara's economic transformation and forced redundancy of the existing commercial class, would have produced dissent the management of which would have necessitated totalitarian methods. To transform the industrial structure into one that could take up a non-zero-sum solution to Japan's own economic and political security, in the place of arms expansion, the planned and forced obsolescence of war materiel, and invasion and plunder to avoid a Malthusian fate, would have required political will and institutional autonomy on a mammoth scale. State Socialism was, in short, the perfect ideology of a thorough "top-down revolution".

State Socialism deserves to be mentioned in the history of the Japanese Left as well as the Right, for it revealed the limits to the potential of the establishment to reinvent itself. The crux of this question is the notion of a "Social Monarchy", which was thought possible by Walther Rathenau and surely also by Nishihara Kamezō. The idea of a "Social Monarchy" can be traced back to Henri de Saint-Simon, who argued that since the interests of the King and industry have historically been interconnected, the King should position himself as "Chief of the industrialist class", rather than being content with leadership over the unproductive nobility; as such Saint-Simon praised no particular king in real life and in effect offered a veiled criticism of kings as they existed then in Europe, whilst avoiding the question that ran through the French Revolution and Napoleonic rule, of whether the Republic

was a superior form of government.⁸¹⁰ Rathenau was similarly unconcerned with issues of polity; “as a second generation big industrialist” who nevertheless offered harsh “critique of hereditary wealth, crude materialism, and luxury consumption”, he showed “willingness to compromise with the existing system, declaring himself a monarchist despite all the system’s failings”.⁸¹¹ Rathenau also mirrored Nishihara with his conservative “plans for parliamentary reform, to be implemented only at the ‘right time’ and only in order to achieve limited goals”, something which Volkov notes damaged Rathenau’s credentials as a social critic. Rathenau’s “hopeful reliance [...] on a vague spiritual revival rather than some form of practical institutional reform – all this may have seemed too much for his conservative colleagues and far too little for more outspoken liberals, not to mention the Socialists.”⁸¹² For Nishihara however, establishing a ‘social monarchy’ through his much more concrete proposals for institutional reform, and ultimately leading to socio-spiritual revival, could have been a much more realistic prospect than in the case of Rathenau. Where Rathenau possessed the power to put forward detailed, practicable reform proposals and see to their implementation by his politically-important associates but utterly failed to do so, Nishihara, at a much more precarious political position, put forward a practicable vision of social reconstruction that could, with some fine tuning and the existence of the right political will, have arguably been pushed through – but it wasn’t.

There were some very objective reasons to account for Nishihara’s failure at domestic reform. The war years had seen a remarkable growth in Japan of large scale firms.⁸¹³ To Nishihara’s misfortune, the main pre-requisite to Rathenau’s success in creating the mobilised economy – being an intense phase of cartelisation in the Germany economy which created a highly centralised and hierarchically-organised industrial system – took place in Japan during the decade after Nishihara had published his 1918 manifesto; so did the decisive shift towards new leading sectors in heavy and chemical industries, which were naturally inclined towards monopolisation –

⁸¹⁰ Uchida, Yoshihiko. [内田義彦] *Nihon Shihon Shugi no Shisōzō* (Imaginations of Japanese Capitalism) [日本資本主義の思想像] Tokyo : Iwanami Books, [岩波書店] 1967. 302-303, 306-307.

⁸¹¹ Volkov, *Rathenau*, 156.

⁸¹² *Ibid.*, 156.

⁸¹³ Those capitalised at 1-5 million yen rose from 296 in 1914 to 1,611 in 1919, whilst those capitalised at more than 5 million yen rose from 62 to 368 in the same period. Yamamura, “The Japanese Economy”, 1911-1930”, 310.

“By 1929, the firms owned or controlled by the Mitsui, Mitsubishi, and Yasuda zaibatsu, along with the giant, nationally-owned Yawata, produced 93.6 per cent of the total output of pig iron, 83.1 per cent of the steel and 83.5 per cent of processed steel products. In the ammonium sulphate industry, the Mitsui and Mitsubishi firms by 1930 virtually divided the total output between them. In the cement industry, 83.1 per cent of the output was accounted for by eight firms under the control of Mitsui, Mitsubishi, and Asano-Yasuda zaibatsu. [...] In [the textile] industry too, the so-called Big Six, accounting for over 40 per cent of the total paid-in capital of the industry, emerged by the end of the 1920’s to lead effectively organised cartels.”⁸¹⁴

Coal was cartelised in 1921; Silk and Artificial Fibre in 1927. “The number of major effective cartels doubled by 1931, and, together with minor cartels which were increasing in number after the mid-1920s, the industrial markets of Japan on the eve of the Manchurian invasion were dominated by cartels.”⁸¹⁵ On the financial front, too, problems that confronted economic administrators at the time of Nishihara’s manifesto in 1918 with stagnant liquidity and the unviability of small Deposit Banks had been resolved during the 1920s under “a vigorous government policy to reduce the number of banks by eliminating weaker banks [which] had the effect of further establishing the supremacy of the zaibatsu banks”.⁸¹⁶ Of the 395 banks disappeared between 1921-25, 276 were by merger; between 1926-30, double that figure – 831 banks – disappeared, of which 589 were by merger.⁸¹⁷ Zaibatsu banks, “for the first time in the 1920’s began to lend a large and increasingly significant amount of long-term capital to non-zaibatsu firms”, and by the mid-to-late-1920s had become “giant and efficient intermediaries for channelling capital to large industrial firms”.⁸¹⁸ This was whilst the active financial policies of Takahashi Korekiyo would attempt with some degree of success to resolve the problem of agricultural and cottage industry finance.⁸¹⁹ These figures immediately explain the cold reception to Nishihara’s premature reform proposals at the time of their release as well as the relative ease

⁸¹⁴ Ibid., 312.

⁸¹⁵ Ibid., 312.

⁸¹⁶ Ibid., 315.

⁸¹⁷ Ibid., 314.

⁸¹⁸ Ibid., 315-316.

⁸¹⁹ Smethurst, Richard J. *From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan’s Keynes*. Cambridge, Massachusetts : Harvard University Press, 2009.

with which the Controlled Economy was finally established in the late 1930s with the outbreak of the Sino-Japanese War.

Thus it can be argued that Nishihara's State Socialism unwittingly fitted into the fatalistic logic towards Japan's militaristic conclusion in the 1940s. Nishihara had supplied many of the policy tools for such mobilisation, and after all he never disagreed with the view of international competition coming from sources like Treitschke. Nishihara never repudiated imperialism, even though he criticised the military-orientated mode of economic development. Nishihara believed in a strong state and a paternalistic Empire that would act in the interests of its subjects; he advocated an economic system that would certainly have slid into, if not deliberately bringing about, State Monopoly Capitalism. Nishihara, furthermore, distrusted the commercial class and bourgeois culture, and was inspired by traditionalist values; with his State Socialist vision he pushed the boundaries of Neo-Confucian possibilities. Yet just as Janis Mimura would have argued, Nishihara and the history of how State Socialism took root in Japan challenges the usual view that Japanese totalitarianism was only a product of social reaction –

“Both the Japanese and English language scholarship have primarily analyzed Japanese fascism within an interpretive framework that emphasizes Japan's lack of modernity. Thus Japanese fascism is commonly identified with the romantic, premodern, irrational views of the radical right associated with Japanese agrarianism, ultranationalism, Japanism, and pan-Asianism. Its key representatives have been identified as right-wing activists such as Kita Ikki, Ōkawa Shūmei, and Nakano Seigō. Like the notion of a German *Sonderweg*, Japan's fascist route has been viewed as a deviation from the traditional Western path of modernization culminating in liberal capitalist democracy. According to this view, Japan's modernization was incomplete because of its late development, weak bourgeois democracy, and authoritarian, backward-looking leaders. The Japanese historian Maruyama Masao argued that fascism originated in a reactionary movement from below and later took the form of a military bureaucratic dictatorship from above.”⁸²⁰

⁸²⁰ Janis Mimura, *Planning for Empire*. Ithaca and London : Cornell University Press, 2011. 4.

Given Japan's long militaristic tradition and the sense of crisis felt by many in the army and elsewhere in the establishment, as well as the right-wing intelligentsia during the 1930s, State Socialism easily fitted into a paradigm where it complemented militarism to offer the delusion that a modern state-led economy free of capitalistic and feudalistic exploitation, and equipped at the same time with the elements of a welfare state, in addition to an expansionist policy that presented Japan with a new hinterland, offered the best form of "government by" and "for the people". At the same time it would be the duty of the state to provide such welfare to the nation, and to eliminate the 'economic parasites', if it were to require such extraordinary sacrifices from the people. Such was the logic beneath the thinking of State Socialists like Kita Ikki and the Imperial Way Faction army officers.

Civilian governments like the one headed by Inukai in 1932, when proposing Soviet-styled economic reform for Japan, thus played into the hands of the military. Although the overtly-Soviet name "Industrial Five Year Plan" was dropped with Inukai's assassination in May 1932, the original aims of demolishing financial austerity were followed through by Takahashi's financial expansionism, which would come to benefit none other the army which assassinated him in 1936. At the very least, Inukai's death in 1932 meant that no political leader would henceforth dare to challenge the legitimacy of the Manchukuo project, and the budget must serve this new reality. State Socialism hence became firmly established in the Japanese political landscape.

Was Nishihara Kamezō then the proponent of a 'reactionary modernism'? This essay would much rather agree with Thomas Rohkrämer's conclusion that modernism was itself multi-faceted, and that one could argue that Nishihara had been a modernist. Rohkrämer wrote that "[Jeffrey] Herf's critique of Nazi 'reactionary modernism' in fact "constructs and solves a problem that does not exist. It is simply not strange or 'paradoxical to reject the Enlightenment and embrace technology at the same time',⁸²¹ but common practice in nineteenth-and twentieth-century Germany as well as in many other countries. Instrumental reason and technology are available for an endless number of different purposes."⁸²² Nishihara,

⁸²¹ Herf *Reactionary Modernism*, 3. Quoted in Rohkrämer, "Antimodernism", 49;

⁸²² Ibid., 49. Rohkrämer continues that "it is more convincing to argue that the stress on the non-modern character of National Socialism can serve to pull the sting out of all the Nazi crimes and belittle the dangerous aspects of modernity [...] Instead of distancing modernity from National Socialism, we should learn to accept that it was by no means a necessary, but was a possible

as we have seen, never opposed enlightenment values and supported industrialism and rationalisation to the end. He thus fails to qualify for the basics of ‘reactionary modernism’. Nishihara’s Neo-Confucian State Socialism was by all means modernist.

During the early 2010s, China was at an unprecedented peak of economic growth; the upsurge of Korea was also taken for granted, against the backdrop of an under-performing Japan governed by the Democratic Party, which began as a diplomatically reconciliatory administration that soon found itself co-opted by Senkaku/Diaoyu- [尖閣／釣魚島] related populist nationalism. There were frequent appeals then in the Chinese and Korean press to a vaguely-defined “East Asian Commonwealth”. The works of the late Tokyo University Sinology professor Mizoguchi Yūzō, [溝口雄三] became a common intellectual resource once translated into Chinese by East Asian Discourse theorists Sun Ge [孫歌] and Zhao Jinghua. [趙京華] Mizoguchi’s original intentions were noble; in place of Fairbank’s Toynbee-inspired “impact-response” model, he argued that modern Asian problems have their roots in institutions that evolved slowly over long historical durations; and that, however drastic such changes might have seemed during the past two centuries, they could only have happened due to them being an adaptive response coming from within; this implied that such responses to impact were nothing more than extensions to the original institutional tendencies. Ultimately, when viewed in terms of a long duration, it was thought that the ‘leaps’ could not have altogether been as dramatic as they first seemed. Intellectuals from the Chinese New Left, notably Wang Hui, [汪暉] attempted to erect an “East Asian Discourse” [東亞論述] which implied a social-scientific and political exceptionalism rooted in assumptions of long-term historical continuities.⁸²³ “Universal values”, they thought, were devoid of merit in assessing the progress, if not sheer success, of the vaguely defined “Chinese system”, otherwise known as the “all-nation model”. [舉國模式]

The logic of the “East Asian Discourse” inevitably leads to the notion that the legitimacy of the present Chinese regime must lie in it being the product of a slow evolution of the ancient imperial meritocratic institutions, complete with their

development within modernity. In that sense, National Socialism shows modernity’s most fatal potential.” (Ibid., 50.)

⁸²³ This was a reaction particularly to the “universal values” of Liu Xiaobo’s Charter ’08, which the “New Left” attacked for being an attempt to transplant, yet again, an arbitrary western construction.

feudalistic, paternalistic tendencies – that is, if only one could readily accept the merits of these ancient institutions, and to immediately associate them with the ‘spectacle’ of modern economic achievement. If one didn’t share these presumptions, then the same logic could be used to totally condemn the present state of affairs, with total disregard for what changes it had sustained historically – revolutionary changes which, until recent times, were commonsensical to regard as a source of pride. This is the worst form of Orientalism. To overcome it would require a more organic method of incorporating the external impact in the longitudinal view; and for a start, it would not make sense to ignore the fact that many aspects which distinguish the current Chinese system, including those which attract the greatest admiration or criticism, were hardly Chinese or Asian traditions, or even Communist creations.

Central to the question is to discern the origins of the politico-economic model known as the “Beijing Consensus”, a developmental-authoritarian mix which is often taken as the essence of an “East Asian Model”. The enigmatic “Beijing Consensus”, and its equally-baffling caricatures, have of course been responsible for the whole spectrum of views that sees China in almost the same light as 19th century Prussia – being either the state that embodied progressive rationality, or the most dangerous and reactionary of them. This thesis has shown that such a politico-economic combination was anything but unique to China, or even Asia. Shaun Breslin’s intervention on the Beijing Consensus debate, where he wrote light-heartedly of a “neo-Listian developmental state with Chinese characteristics”, whilst admitting that “the model is in the eyes of the beholder”,⁸²⁴ are especially enlightening in this regard. What is certain is that, if this “mix” is to be understood and critiqued properly, then what must precisely be avoided is exceptionalism in social scientific analysis; China’s practical differences with contemporary political systems are real and valid, but only by perceiving of such as differences in degree, can China be placed within a comparative context and better understood. Logically, the East Asian “politico-economic mix” should be compared not to currently-existing systems in the developed world, but to those which developed countries had gone through whilst at the developing stage.⁸²⁵ This was what Alexander Gerschenkron attempted when analysing in the 1950s-70s the Soviet Union, a country often incomprehensible in

⁸²⁴ Breslin, “The ‘China model’”, 1336

⁸²⁵ Ibid., 1336

the eyes of the West, by constantly comparing it to mid-19th century France, Germany and the Austro-Hungarian Empire. It was a method which not only highlighted the homogeneities of social structure but showed them as in fact homologous – to show that there was a common ancestry of ideas and institutions. This was precisely what this thesis has done.

Korean scholar Paek Young-seo [白永瑞] wrote in the book *Thinking East Asia*, [思想東亞] a historical critique of the Korean discourse on China and of Korea's place in East Asian politics, that "The East Asian perspective is stranded at the level of the question being posed; it has yet to become systematic content. [...] Asia has not been able to grasp itself either as a regional hierarchy or as a concept of civilization, and to continue extending its discursive efforts systematically in such a direction."⁸²⁶ The obvious question that arises is how the politico-economic system in modern East Asia could be grasped historically and systematically. The evolution of the inner regularities of the East Asian system was propelled not only by their internal motion but also by their catalysis of external inputs. Sun Ge noted her book *Why must we talk about East Asia* [我們為甚麼要談東亞] that there is an urgency "To overcome the sort of empty rhetoric that asks whether East-Asia could become a Common Entity", because the region has already been "connected together by tense relations, [and] what creates ties between them is much more than "cooperation" in the straightforward sense, but a far more complicated mechanism."⁸²⁷ If the end result of such interactions is the establishment of the politico-economic model characteristic to East Asia, what then comprises this interactive mechanism, and how is it positioned in the international context?

The Sino/Korean-Japanese confrontation of the past century has lent itself to the unfortunate impression that such conflict had been perpetual. This thesis has demonstrated that the modernity of these countries was in fact co-constituted, rather than simply being defined against one another; and that the seeds of later discord were to be found in the limits of peaceful interaction. The thesis has shown that the politico-economic model adopted by these countries had branched off from similar European modes of industrial and social organisation. This thesis is a preliminary attempt at shedding light on the mechanisms of propagation of ideas

⁸²⁶ Paek, *Sixiang Dongya*, 203.

⁸²⁷ Sun, Ge. [孫歌] *Women Weishenme Yao Tan Dongya*, (Why We Need to Talk About East Asia) [我們為甚麼要談東亞] Beijing: Joint Publishing, [三聯書店] 2011. 58.

during the early phase of industrial globalisation, particularly the ideological and political devices through which the industrial capitalist mode of production, reproducing itself across borders, was then adapted to the rebellious needs of the economic periphery, and in the process inevitably acquired a statist tint.

Authoritarian systems of economic development in East Asia, which at various stages, rejected laissez-faire capitalism – embracing Kōzō Yamamura’s “Nonliberal Capitalism”⁸²⁸ by stressing on state intervention in traditional markets reluctant to industrialise – shared a common logic of positive freedom and material liberty with Japanese and Franco-German ancestry. Much of this took place long before Communist ideological intervention, and indeed it is necessary to show how remarkably little innovation there was in the Marxist movements of East Asia and even Soviet Russia; for many politico-economic institutions created by Marxist regimes, there was always a Statist or State Socialist inspired precedent, or at least a previous attempt with similar goals; this is despite proletarian revolutions, or administrative restructuring on Communist (ie. State Socialist) lines, usually being instrumental to provide the necessary state capacity to carry out such policies. Sadly for Nishihara, the realisation of statist economic planning in East Asia was only made possible by mobilisation for a Sino-Japanese war that should have been averted,⁸²⁹ and then for the Cold War. What remains to be asked is why State Socialism blended so well with East Asian social traditions – if one wishes to avoid a reductionist explanation based exclusively on the role of tradition factors.

Nishihara did leave, indirectly, a developmentalist legacy in post-war Japanese politics. His colleague and Secretary to the Minister of Finance during the drafting of the October 1918 *Strategy for Economic State-Building*, Tsushima Ju’ichi, [津島壽一] was to remain influential in post-war politics and even assumed the Presidency of the Tōkyō Olympics Committee in 1964. Tsushima was mentor to Ōhira Masayoshi, [大平正芳] Prime Minister of Japan from 1978 to 1980, whose main source of political support in the Liberal Democratic Party was from the Kōchikai faction [宏池會] headed by Maeo Shigesaburō. [前尾繁三郎] Maeo, who also hailed from the Tango-region in northern Kyōto, had during his youth been under

⁸²⁸ Streeck & Yamamura, eds. *Nonliberal Capitalism*.

⁸²⁹ In Nishihara’s autobiography, first published in 1949, he described his anguish and regret that despite all of his efforts, Japan invaded China and turned fascist, which led to defeat and ruin. (Nishihara, *Jiden*, 278)

immense influence from Nishihara Kamezō.⁸³⁰ Ōhira would have consulted Maeo on a range of policies, including what may perhaps be called Ōhira's greatest legacy – the Overseas Developmental Aid (ODA) loans to China under Deng Xiaoping. These funds supplied the initial capital for China's economic reform and provided the west with an example of political confidence in China;⁸³¹ loans and aid flooded into China during the early 1980s, following the Japanese example. It could be argued of course that Japan was not alone in providing ODA, but the point is that Nishihara was nothing less than a trailblazer for this Japanese policy.

The proof required to substantiate a direct link between Nishihara and the ODA project will be beyond the limits of this study. Yet such an argument may precisely be crucial to help Sino-Japanese historical reconciliation, for it provides mental resources for the reimagination of the constructive legacy of pre-1945 Japan. It is the general impression that such reconciliation, or indeed calm reflection of Sino-Japanese history, has been hindered by the hijacking of pre-1945 Japanese political history by the actions of its militaristic elite. Popular assumption is that somehow, Japanese aggression – Mukden in 1931, Marco Polo Bridge in 1937 and Pearl Harbour in 1941 – had been fatalistically implied by the Meiji Restoration, or more specifically, by the political system prescribed by the Meiji elite. It is usually assumed that the only figures against military expansionism and ultimate war had been the interwar democrats like Ishibashi Tanzan [石橋湛山] who advocated against common sense for abandoning Japan's imperial possessions. These people either didn't stand a chance or were eventually reminded of their inefficacy before being reluctantly co-opted at some point by the militarists. Far too often the annihilating defeat of 1945 has been implicitly assumed to be necessary to salvage Japan from its obsessions since 1868 – a notion that many people in Japan, with good reason, find difficult to swallow. To conservative, right-wing Japanese audiences, justifying expansionism might seem necessary for any positive appraisal of Japan before 1945. The case of Nishihara shows otherwise – that a non-

⁸³⁰ Confirmed by Nishihara Kamezō's grandson, Nishihara Tadamasa, during an interview on 25th January, 2018.

⁸³¹ Wang, Xincheng. [王新生] "Zhongguo de Gaige Kaifang yu Daping Zhengfang – Yi Diyici Riyuan Daikuan wei Zhongxin" ("China's Reform and Opening Up and Ohira Masayoshi – Regarding the First Japanese Yen Loans".) [中國的改革開放與大平正芳 – 以第一次日元貸款為中心] *Duili yu Gongcun de Lishi Renshi – Rizhong Guanxi 150 Nian* (A Historical Understanding of Confrontation and Coexistence – 150 Years of Sino-Japanese Relations). [對立與共存的歷史認識 – 日中關係 150 年] Liu, Jie and [劉杰] Kawashima Shin, [川島真] eds. Beijing: Social Science Academic Press, [社會科學文獻出版社] 2015. 245-266.

militaristic conclusion was possible. To a Chinese audience all too willing to condemn everything in pre-1945 Japan, Nishihara's example is a useful one to bear in mind, for it shows that only a small militarist section within the right-wing elite, represented by Tanaka Gi'ichi, Koiso Kuniaki and Nagata Tetsusan [永田鐵山] were at fault; Japanese civilians suffered just as much from their recklessness.

The efforts of Sun Ge and her team to introduce Japanese theorists to Chinese audiences has found some embarrassment when translating Takeuchi Yoshimi, [竹内好] the post-war "high priest of Pan-Asianism". Takeuchi, though himself representative of the pre-war generation of Sinophiles from the *Tō'A Dōbunkai* [東亞同文會] tradition, maintained an outdated and warped view of Pan-Asianism in the form as it existed in the 1940s. As late as 1962 he wrote that whilst he understood invasion to be wrong, he missed the "sense of attachment" [連帶感] that the Japanese felt with the Asian continent during the war, and said that Pan-Asianism had been the baby that was thrown out with the bathwater at the end of the war.⁸³² Many of his more problematic essays have simply not been translated by Sun Ge's team into Chinese, for they are of little help to historical reconciliation, and do not aide comprehension of the diversity and subtlety of Japanese thought. Nor do they provide a viable intellectual alternative to the dominant historical discourse which depicts the history of East Asian during the past two centuries as being one dominated by aggression, resistance and long-standing confrontation – something which Takeuchi attempts to gloss over with the "sense of attachment" that he, as a perpetrator and accomplice (having served briefly as a soldier) felt towards his victims. Unlike what Sun Ge had hoped, Takeuchi has in fact failed to provide mental resources, and hardly any compelling case, for historical reconciliation.

Nishihara's episode on the other hand presents a clear case for real historical reconciliation. Although Nishihara's reforms would have unwittingly contributed to a Hayek-styled, economically-dictated 'path to serfdom', his thoroughly modernist advocacies predicted many of the changes that would befall Asian countries during the 20th century and is a clear example of the co-constitution of East Asian modernity.

⁸³² Takeuchi Yoshimi, "Nihonjin no Ajia Kan" [日本人のアジア観] in *Takeuchi Yoshimi Zenshū*, [竹内好全集] (Tokyo : Chikumashobō, 1981), 118-119. Quoted in Sun, Jiang. [孫江] "Zai Yazhou Chaoyue 'Jindai'? – Yige Pipanxingde Huigu", (Overcoming 'Modernity' in Asia? A Critical Review). [在亞洲超克 '近代'?] In *Jiangsu Shehui Kexue*, [江蘇社會科學] 2016 (3), 165-171.166-167. Takeuchi maintained a strong anti-US stance that cleverly endeared him to the post-war Left, whilst insisting throughout the 1950s that the Tokyo Trials were "victor's justice".

Nishihara's 1918 manifesto should be considered as an important work that forms a bridge between 19th century European statist industrialism – particularly German State Socialism – and what eventually became the “Beijing Consensus”, which in its present form resembles the later phase of Saint-Simonianism. Admittedly, Nishihara never cut himself clean from imperialism; yet what should not be in doubt are Nishihara's opposition to tactics of naked aggression and a military-dominated economic model, besides his credentials as a thinker of developmentalist-orientated diplomacy and social reform aimed at improving popular living standards.

Nishihara did share certain similarities with Ishibashi Tanzan in that both of them advocated returning Japanese concessions in China to Chinese control, and admitted that Manchuria was to remain Chinese-dominated despite all the Japanese investment there.⁸³³ Yet Nishihara differed from Ishibashi in that, contrary to the latter, he did not advocate unilateral withdrawal from the continent, but instead, a re-entry into continental affairs on terms that would have been more advantageous and mutualistic for Japan's continental partners. Such was in fact a much more responsible approach than Ishibashi's to revamping Japan's Continental Policy – something which the country could not avoid dealing with. Nishihara's case has shown how the annexationist and internally-stifling designs of the militarists were far from universal even amongst the elite; the right-wing establishment stood an almost equal chance of being converted to his State Socialist, developmentalist China policy. The condemnation of the errors of the militarist section of right-wing ideology, in a discussion of pre-war Japan, need not be interpreted as, or much less expressed in terms of, a racially-prejudiced 'anti-Japanese tirade' of sorts. Hopefully, Nishihara's unique example can serve as common ground for fruitful dialogue among people of different views, in an otherwise never-ending futile debate.

⁸³³ Matsu'ura, Masataka. [松浦正孝] 'Dai To'A Sensō' wa Naze Okita no ka – Han'Ajia Shugi no Seiji Keizai Shi. [“大東亜戦争”はなぜ起きたのか：汎アジア主義の政治経済史] Nagoya : Nagoya Daigaku Shuppankai, [名古屋大学出版会] 2010. 111-121.

Appendix 1 – Table of Contents Compared, Friedrich List (1841) and Nishihara Kamezō (1918)

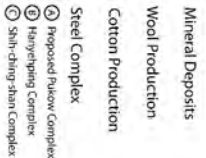
| List – National System of Political Economy | Nishihara – Strategy for Economic State-Building |
|---|--|
| <p>First Book: The History Chapter I: The Italians. Chapter II: The Hansards. Chapter III: The Netherlanders. Chapter IV: The English. Chapter V: The Spaniards and Portuguese. Chapter VI: The French. Chapter VII: The Germans. Chapter VIII: The Russians. Chapter IX: The North Americans. Chapter X: The Teachings of History.</p> <p>Second Book: The Theory Chapter XI: Political and Cosmopolitical Economy. Chapter XII: The Theory of the Powers of Production and the Theory of Values. Chapter XIII: The National Division of Commercial Operations and the Confederation of the National Productive Forces. Chapter XIV: Private Economy and National Economy. Chapter XV: Nationality and the Economy of the Nation. Chapter XVI: Popular and State Financial Administration, Political and National Economy. Chapter XVII: The Manufacturing Power and the Personal, Social, and Political Productive Powers of the Nation. Chapter XVIII: The Manufacturing Power and the Natural Productive Powers of the Nation. Chapter XIX: The Manufacturing Power and the Instrumental Powers (material Capital) of the Nation. Chapter XX: The Manufacturing Power and the Agricultural Interest. Chapter XXI: The Manufacturing Power and Commerce. Chapter XXII: The Manufacturing Power and Navigation, Naval Power and Colonisation. Chapter XXIII: The Manufacturing Power and the Instruments of Circulation. Chapter XXIV: The Manufacturing Power and the Principle of Stability and Continuity of Work. Chapter XXV: The Manufacturing Power and the Inducement to Production and Consumption. Chapter XXVI: Customs Duties As a Chief Means of Establishing and Protecting the Internal Manufacturing Power. Chapter XXVII: The Customs System and the Popular School.</p> <p>Third Book: The Systems Chapter XXVIII: The National Economists of Italy. Chapter XXIX: The Industrial System (falsely Termed By the School 'the Mercantile System'). Chapter XXX: The Physiocratic Or Agricultural System. Chapter XXXI: The System of Values of Exchange (falsely Termed By the School, the 'industrial' System)—Adam Smith. Chapter XXXII: The System of Values of Exchange (continued)—Jean Baptiste Say and His School.</p> <p>Fourth Book: The Politics Chapter XXXIII: The Insular Supremacy and the Continental Powers—north America and France. Chapter XXXIV: The Insular Supremacy and the German Commercial Union. Chapter XXXV: Continental Politics. Chapter XXXVI: The Commercial Policy of the German Zollverein.</p> <p>Appendices</p> | <p>Chapter One - Overview Section 1 – General Trends in the World 1.1 Britain 1.2 United States of America 1.3 Germany 1.4 Russia Section 2 – The Future of China Section 3 – Japan's Policy Towards China Section 4 – Domestic Economic Policy</p> <p>Chapter Two – Agricultural Policy Section 1 – Agriculture and Rice and Cereals Section 2 – Agricultural Organisation and Rural Economy Section 3 – Agriculture's Relationship to Other Industries Section 4 – Relationship between Foreign and Japanese Rice Section 5 – The Main Point of Agricultural Policy Section 6 – Land Policy</p> <p>Chapter Three – Industrial Policy Section 1 – The Present Condition of Japan's Industry Section 2 – The Imperial Industrial Association and Urgent Methods of Industrial Revival Section 3 – Contingent Improvement Policies Section 4 – Fundamental Industrial Policy Section 5 – Artisan Products and Household Industries Section 6 – The Future of Japan's Silk Industry Section 7 – Overseas Trade and Exportation Cooperatives</p> <p>Chapter Four – Transport Policy Section 1 – The Railway Gauge Question Section 2 – Railway Transport Section 3 – Relationship between Railways and Industry and Methods of Improving Connectivity Section 4 – Rationalisation of Goods Handling and the Unification of Delivery Services Section 5 – Rationalisation of Railway Workshops Section 6 – Development of Maritime Transport and Industry</p> <p>Chapter Five – Financial Policy Section 1 – Overview Section 2 – Central Bank Section 3 – Normal Banks Section 4 – Industrial Bank of Japan Section 5 – Externally Oriented Financial Institutions Section 6 – Real Estate Banks Section 7 – Savings Banks Section 8 – Life Insurance and other Insurance Companies Section 9 – Lower Level Finance</p> <p>Chapter Six – Distribution, Consumption and Merchant Bodies Section 1 – Overview Section 2 – Govt Purchases and the Imp. Commodities Corp. Section 3 – Inner-city Department Stores Section 4 – Production Coop's and Unified Purchasing and Retail Section 5 – Merchant Organisations based on the Doctrine of Coexistence and Mutual-Benefit</p> <p>Chapter Seven – Education of the Nationals Section 1 – Overview Section 2 – Breaking the Uniformity of Popular Education Section 3 – The Abolition of Higher Primary Schools and the Incorporation of Industrial Supplementary Instruction Schools as Part of Free, Compulsory Education Section 4 – Youth Associations</p> <p>Chapter Eight – The Improvement of Local Self-Government Section 1 – Overview Section 2 – The Reform of Self-Government</p> <p>Chapter Nine – Government Institutions and the Tax Regime Section 1 – Reform of Government Institutions Section 2 – Improvements to the Tax Regime Section 3 – Changes to the Auditing Laws</p> <p>Chapter Ten – Conclusions</p> <p>Appendix – Doctrine of Economic State-Building.</p> |

Appendix 2 – *Conversion table for contemporary spellings and Hanyu Pinyin spellings.*

| Contemporary Spellings | Chinese | Hanyu Pinyin |
|------------------------|---------|-----------------|
| Anhwei | 安徽 | Anhui |
| An-shan-chan | 安山站 | Anshanzhan |
| Canton | 廣州 | Guangzhou |
| Carsun Chang | 張君勳 | Zhang Junmai |
| Ch'en Chin-t'ao | 陳錦濤 | Chen Jintao |
| Ch'en Kung-po | 陳公博 | Chen Gongbo |
| Chiang Ching-kuo | 蔣經國 | Jiang Jingguo |
| Ch'ien Ch'ang-chao | 錢昌照 | Qian Changzhao |
| Chang Chien | 張謇 | Zhang Jian |
| Chang Chih-tung | 張之洞 | Zhang Zhidong |
| Chang Kia-ngau | 張嘉璈 | Zhang Jia'ao |
| Chang Kuo-kan | 張國淦 | Zhang Guogan |
| Chang Tsung-hsiang | 章宗祥 | Zhang Zongxiang |
| Chang Tzu-k'ai | 張茲闡 | Zhang Zikai |
| Chao Yao-tung | 趙耀東 | Zhao Yaodong |
| Chekiang | 浙江 | Zhejiang |
| Chen Kao-ti | 陳高第 | Chen Gaodi |
| Cheng Hsiao-hsu | 鄭孝胥 | Zheng Xiaoxu |
| Cheng Kuan-ying | 鄭觀應 | Zheng Guanying |
| Chengtu | 成都 | Chengdu |
| Chihli | 直隸 | Zhili |
| Chin-ling-chen | 金嶺鎮 | Jinlingzhen |
| Chou En-lai | 周恩來 | Zhou Enlai |
| Chow Hsueh-hsi | 周學熙 | Zhou Xuexi |
| Chow Tse-tsung | 周策縱 | Zhou Cezong |
| Chow Tzu-ch'i | 周自齊 | Zhou Ziqi |
| Chu Chih-hsin | 朱執信 | Zhu Zhixin |
| Fan Yuan-lien | 范源廉 | Fan Yuanlian |
| Feng Hsiang | 馮驤 | Feng Xiang |
| Hankow | 漢口 | Hankou |
| Hanyehping | 漢冶萍 | Hanyeping |
| Heilungkiang | 黑龍江 | Heilongjiang |
| Honan | 河南 | Henan |
| Hsining | 西寧 | Xining |
| Hsinking | 新疆 | Xinjiang |
| Hsu Shih-chang | 徐世昌 | Xu Shichang |
| Hsu Shu-cheng | 徐樹錚 | Xu Shuzheng |
| Hu Shih | 胡適 | Hu Shi |
| Hupei | 湖北 | Hubei |
| Hwai River | 淮河 | Huai He |
| I-hsien | 嶧縣 | Yixian |
| Jung Tsung-ching | 榮宗敬 | Rong Zongjing |
| Kalgan | 張家口 | Zhangjiakou |
| Kang Yu-wei | 康有為 | Kang Youwei |
| Kansu | 甘肅 | Gansu |
| Kiangsu | 江蘇 | Jiangsu |
| Kirin | 吉林 | Jilin |
| kuan-tu shang-pan | 官督商辦 | Guandu Shangban |
| Kuei-sui | 歸綏 | Guisui (Holhot) |
| Kung Yen Pao | 公言報 | Gongyan Bao |
| Kwang-hsu | 光緒 | Guangxu |

| | | |
|-------------------|-----|---------------------|
| Lanchow | 蘭州 | Lanzhou |
| Li Hung-chang | 李鴻章 | Li Hongzhang |
| Li Kuo-ting | 李國鼎 | Li Guoding |
| Li Ta-chao | 李大釗 | Li Dazhao |
| Li Yuan-hung | 黎元洪 | Li Yuanhong |
| Liang Ch'i-ch'ao | 梁啟超 | Liang Qichao |
| Lien-yun Port | 連雲港 | Lianyungang |
| Lu Hsueh-p'u | 盧學溥 | Lu Xuepu |
| Lu Ting | 陸定 | Lu Ding |
| Lunghai | 隴海 | Longhai |
| Lung-yen | 龍煙 | Longyan |
| Manchuli | 滿州里 | Manzhouli |
| Miao-er-kou | 廟兒溝 | Miaoergou |
| Mo-ling-kwan | 秣陵關 | Molingguan |
| Mukden | 奉天 | Fengtian (Shenyang) |
| Nanking | 南京 | Nanjing |
| Nantung | 南通 | Nantong |
| Peiyang | 北洋 | Beiyang |
| Peking | 北京 | Beijing |
| Ping-hsiang | 萍鄉 | Pingxiang |
| Pukow | 浦口 | Pukou |
| Shansi | 山西 | Shanxi |
| Shantung | 山東 | Shandong |
| Sheng Hsuan-huai, | 盛宣懷 | Sheng Xuanhuai |
| Shensi | 陝西 | Shaanxi |
| Shih-ching-shan | 石景山 | Shijingshan |
| Sun Yue-ch'i | 孫越崎 | Sun Yueqi |
| Sun Yun-hsuan | 孫運璿 | Sun Yunxuan |
| Sung Chiao-jen | 宋教仁 | Song Jiaoren |
| Szechwan | 四川 | Sichuan |
| T'ao-chung | 桃沖 | Taochong |
| Taokou | 道口 | Daokou |
| Tatung | 大同 | Datong |
| Tayeh | 大冶 | Daye |
| Tientsin | 天津 | Tianjin |
| Ting Ven-kiang | 丁文江 | Ding Wenjiang |
| Ts'ao Chen-mao | 曹振懋 | Cao Zhenmao |
| Ts'ao Ju-lin | 曹汝霖 | Cao Rulin |
| Tsinan | 濟南 | Jinan |
| Tsinghai | 青海 | Qinghai |
| Tuan Ch'i-jui | 段祺瑞 | Duan Qirui |
| Wang Chih-lung | 王郅隆 | Wang Zhilong |
| Wang I-tang | 王揖唐 | Wang Yitang |
| Wang Pao-ch'en | 王葆真 | Wang Baozhen |
| Wong Wen-hao | 翁文灝 | Weng Wenhao |
| Wu Ting-ch'ang | 吳鼎昌 | Wu Dingchang |
| Yang Shih-ch'i | 楊士琦 | Yang Shiqi |
| Yang Tu | 楊度 | Yang Du |
| Yen-chang | 延長 | Yanchang |
| Yen Fu | 嚴復 | Yan Fu |
| Yu Ya-ching | 虞洽卿 | Yu Qiaqing |
| Yuan Shih-k'ai | 袁世凱 | Yuan Shikai |
| Yuan Yung-lien | 袁永廉 | Yuan Yonglian |
| Yung-Chiu-Huang | 永久黃 | Yongjiuhuang |

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